

# BARNES & NOBLE INC

## FORM 10-Q (Quarterly Report)

Filed 03/02/17 for the Period Ending 01/28/17

Address	122 FIFTH AVE NEW YORK, NY 10011
Telephone	2126333300
CIK	0000890491
Symbol	BKS
SIC Code	5940 - Miscellaneous Shopping Goods Stores
Industry	Other Specialty Retailers
Sector	Consumer Cyclical
Fiscal Year	05/03

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended January 28, 2017

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-12302

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**BARNES & NOBLE, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**122 Fifth Avenue, New York, NY**  
(Address of Principal Executive Offices)

**06-1196501**  
(I.R.S. Employer  
Identification No.)

**10011**  
(Zip Code)

**(212) 633-3300**

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of February 28, 2017, 72,468,178 shares of Common Stock, par value \$0.001 per share, were outstanding, which number includes 76,706 shares of unvested restricted stock that have voting rights and are held by members of the Board of Directors and the Company’s employees.

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**BARNES & NOBLE, INC. AND SUBSIDIARIES**

**Fiscal Quarter Ended January 28, 2017**

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## PART I - FINANCIAL INFORMATION

**Item 1: Financial Statements****BARNES & NOBLE, INC. AND SUBSIDIARIES****Consolidated Statements of Operations**  
**(In thousands, except per share data)**  
**(unaudited)**

	13 weeks ended		39 weeks ended	
	January 28, 2017	January 30, 2016	January 28, 2017	January 30, 2016
Sales	\$1,300,908	1,413,947	\$3,073,338	3,287,160
Cost of sales and occupancy	864,107	922,292	2,103,623	2,225,621
Gross profit	436,801	491,655	969,715	1,061,539
Selling and administrative expenses	278,962	322,652	801,499	885,063
Depreciation and amortization	29,052	35,147	90,083	103,864
Operating income	128,787	133,856	78,133	72,612
Interest expense, net and amortization of deferred financing fees	2,076	1,976	5,666	7,233
Income before taxes	126,711	131,880	72,467	65,379
Income taxes	56,435	51,618	37,016	20,071
Net income from continuing operations	\$ 70,276	80,262	\$ 35,451	45,308
Net loss from discontinued operations	—	—	—	(39,146)
Net income	\$ 70,276	80,262	\$ 35,451	6,162
Basic income (loss) per common share:				
Income from continuing operations	\$ 0.97	1.04	\$ 0.48	0.48
Loss from discontinued operations	—	—	—	(0.54)
Basic income (loss) per common share	\$ 0.97	1.04	\$ 0.48	(0.06)
Diluted income (loss) per common share:				
Income from continuing operations	\$ 0.96	1.04	\$ 0.48	0.48
Loss from discontinued operations	—	—	—	(0.54)
Diluted income (loss) per common share	\$ 0.96	1.04	\$ 0.48	(0.06)
Weighted average common shares outstanding:				
Basic	71,581	74,856	72,232	71,987
Diluted	71,714	74,924	72,387	72,124
Dividends declared per common share	\$ 0.15	0.15	\$ 0.45	0.45

See accompanying notes to consolidated financial statements.

**BARNES & NOBLE, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income**  
**(In thousands)**  
**(unaudited)**

	13 weeks ended		39 weeks ended	
	January 28, 2017	January 30, 2016	January 28, 2017	January 30, 2016
Net income	\$ 70,276	80,262	\$ 35,451	6,162
Other comprehensive income, net of tax:				
Decrease in postretirement plan liability (net of tax expense of \$30)	—	—	47	—
Total comprehensive income	<u>\$ 70,276</u>	<u>80,262</u>	<u>\$ 35,498</u>	<u>6,162</u>

See accompanying notes to consolidated financial statements.

**BARNES & NOBLE, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
(In thousands, except per share data)

	January 28, 2017 (unaudited)	January 30, 2016 (unaudited)	April 30, 2016 (unaudited)
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 11,628	63,557	13,838
Receivables, net	70,434	69,364	124,917
Merchandise inventories, net	1,010,343	1,043,930	933,723
Prepaid expenses and other current assets	62,164	66,674	105,912
Total current assets	<u>1,154,569</u>	<u>1,243,525</u>	<u>1,178,390</u>
<b>Property and equipment:</b>			
Land and land improvements	2,541	2,541	2,541
Buildings and leasehold improvements	1,060,416	1,047,357	1,058,452
Fixtures and equipment	1,597,435	1,571,457	1,560,005
	<u>2,660,392</u>	<u>2,621,355</u>	<u>2,620,998</u>
Less accumulated depreciation and amortization	2,378,925	2,314,176	2,322,418
Net property and equipment	<u>281,467</u>	<u>307,179</u>	<u>298,580</u>
Goodwill	211,276	215,197	211,276
Intangible assets, net	310,369	311,066	310,904
Other non-current assets	11,275	11,637	13,632
Total assets	<u>\$ 1,968,956</u>	<u>2,088,604</u>	<u>2,012,782</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ 500,751	576,958	480,574
Accrued liabilities	319,145	334,314	360,194
Gift card liabilities	384,830	384,915	353,103
Total current liabilities	<u>1,204,726</u>	<u>1,296,187</u>	<u>1,193,871</u>
Long-term debt	18,200	—	47,200
Deferred taxes	54,290	16,289	54,017
Other long-term liabilities	105,212	138,668	114,184
<b>Shareholders' equity:</b>			
Common stock; \$0.001 par value; 300,000 shares authorized; 111,648, 110,740 and 111,228 shares issued, respectively	112	111	112
Additional paid-in capital	1,743,562	1,734,898	1,738,034
Accumulated other comprehensive income (loss)	198	(16,533)	151
Retained earnings	(22,045)	17,629	(24,349)
Treasury stock, at cost, 40,093, 36,797 and 37,941 shares, respectively	(1,135,299)	(1,098,645)	(1,110,438)
Total shareholders' equity	<u>586,528</u>	<u>637,460</u>	<u>603,510</u>
Commitments and contingencies	—	—	—
Total liabilities and shareholders' equity	<u>\$ 1,968,956</u>	<u>2,088,604</u>	<u>2,012,782</u>

See accompanying notes to consolidated financial statements.

**BARNES & NOBLE, INC. AND SUBSIDIARIES**  
**Consolidated Statement of Changes in Shareholders' Equity**  
**For the 39 weeks ended January 28, 2017**  
**(In thousands)**  
**(unaudited)**

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Gains	Retained Earnings	Treasury Stock at Cost	Total
Balance at April 30, 2016	<u>\$ 112</u>	<u>1,738,034</u>	<u>151</u>	<u>(24,349)</u>	<u>(1,110,438)</u>	<u>\$603,510</u>
Net income	—	—	—	35,451	—	35,451
Postretirement plan liability, net of tax	—	—	47	—	—	47
Exercise of 31 common stock options	—	312	—	—	—	312
Stock options and restricted stock tax expense	—	(318)	—	—	—	(318)
Stock-based compensation expense	—	5,534	—	—	—	5,534
Cash dividends declared	—	—	—	(33,005)	—	(33,005)
Accrued dividends for long-term incentive awards	—	—	—	(142)	—	(142)
Purchase of treasury stock related to stock-based compensation, 132 shares	—	—	—	—	(1,580)	(1,580)
Treasury stock repurchase plan, 2,020 shares	—	—	—	—	(23,281)	(23,281)
Balance at January 28, 2017	<u>\$ 112</u>	<u>1,743,562</u>	<u>198</u>	<u>(22,045)</u>	<u>(1,135,299)</u>	<u>\$586,528</u>

See accompanying notes to consolidated financial statements.

**BARNES & NOBLE, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
(In thousands)  
(unaudited)

	39 weeks ended	
	January 28, 2017	January 30, 2016
<b>Cash flows from operating activities:</b>		
Net income	\$ 35,451	6,162
Net loss from discontinued operations	—	(39,146)
Net income from continuing operations	\$ 35,451	45,308
<b>Adjustments to reconcile net income to net cash flows from operating activities:</b>		
Depreciation and amortization (including amortization of deferred financing fees)	91,545	106,657
Stock-based compensation expense	5,534	10,943
Impairment charges	93	3,922
Loss on disposal of property and equipment	1,179	1,220
Net decrease in other long-term liabilities	(8,895)	(23,541)
Net decrease (increase) in other non-current assets	1,327	(902)
Changes in operating assets and liabilities, net	32,189	101,543
Net cash flows provided by operating activities	<u>158,423</u>	<u>245,150</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(73,665)	(69,785)
Net cash flows used in investing activities	<u>(73,665)</u>	<u>(69,785)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from credit facility	897,878	659,400
Payments on credit facility	(926,878)	(659,400)
Cash dividends paid	(32,955)	(34,811)
Treasury stock repurchase plan	(23,281)	(16,489)
Purchase of treasury stock related to stock-based compensation	(1,580)	(2,440)
Payment of new credit facility related fees	(474)	(5,701)
Proceeds from exercise of common stock options	312	1,302
Excess tax benefit from stock-based compensation	88	1,768
Cash dividends paid for long-term incentive awards	(78)	—
Cash settlement of equity award	—	(8,022)
Cash dividends paid to preferred shareholders	—	(3,941)
Inducement fee paid upon conversion of Series J preferred stock	—	(3,657)
Net cash flows used in financing activities	<u>(86,968)</u>	<u>(71,991)</u>
<b>Cash flows from discontinued operations:</b>		
Operating cash flows	—	(86,384)
Investing cash flows	—	(11,764)
Financing cash flows (including cash at date of Spin-Off)	—	(16,029)
Net cash flows used in discontinued operations	<u>—</u>	<u>(114,177)</u>
Net decrease in cash and cash equivalents	(2,210)	(10,803)
Cash and cash equivalents at beginning of period	13,838	74,360
Cash and cash equivalents at end of period	<u>\$ 11,628</u>	<u>\$ 63,557</u>
<b>Changes in operating assets and liabilities, net:</b>		
Receivables, net	\$ 54,483	\$ (9,099)
Merchandise inventories, net	(76,620)	(48,192)
Prepaid expenses and other current assets	43,718	27,291
Accounts payable, accrued liabilities and gift card liabilities	10,608	131,543
Changes in operating assets and liabilities, net	<u>\$ 32,189</u>	<u>\$ 101,543</u>

See accompanying notes to consolidated financial statements.

**BARNES & NOBLE, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows (continued)**  
**(In thousands)**  
**(unaudited)**

	39 weeks ended	
	January 28, 2017	January 30, 2016
<b>Supplemental cash flow information</b>		
Cash paid during the period for:		
Interest	\$ 4,125	11,105
Income taxes (net of refunds)	\$ (18,027)	7,724
Non-cash financing activity:		
Accrued dividends for long-term incentive awards	\$ 514	326
Cash dividends accrued	\$ 50	—
Dividends to preferred stockholders paid in shares	\$ —	1,783
Issuance of common stock upon conversion of Series J preferred stock	\$ —	200,262

See accompanying notes to consolidated financial statements.

**BARNES & NOBLE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**For the 39 weeks ended January 28, 2017 and January 30, 2016**  
**(Thousands of dollars, except per share data)**  
**(unaudited)**

The unaudited consolidated financial statements include the accounts of Barnes & Noble, Inc. and its subsidiaries (collectively, Barnes & Noble or the Company).

In the opinion of the Company's management, the accompanying unaudited consolidated financial statements of the Company contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly its consolidated financial position as of January 28, 2017 and the results of its operations for the 13 and 39 weeks and its cash flows for the 39 weeks then ended. These consolidated financial statements are condensed and therefore do not include all of the information and footnotes required by generally accepted accounting principles. The consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the 52 weeks ended April 30, 2016 (fiscal 2016).

Due to the seasonal nature of the business, the results of operations for the 39 weeks ended January 28, 2017 are not indicative of the results expected for the 52 weeks ending April 29, 2017 (fiscal 2017).

**1. Separation of Barnes & Noble Education, Inc.**

On February 26, 2015, Barnes & Noble announced plans for the legal and structural separation of Barnes & Noble Education, Inc. (Barnes & Noble Education or B&N Education) (formerly known as NOOK Media Inc.) from Barnes & Noble into an independent public company (the Spin-Off).

On July 14, 2015, the Barnes & Noble board of directors (the Board) approved the final distribution ratio and declared a pro rata dividend of the outstanding shares of B&N Education common stock, which resulted in the complete legal and structural separation of the two companies. The distribution was subject to the satisfaction or waiver of certain conditions as set forth in B&N Education's Registration Statement on Form S-1, which was filed with the Securities and Exchange Commission (SEC) on February 26, 2015 and was amended on April 29, 2015, June 4, 2015, June 29, 2015, July 13, 2015, July 14, 2015 and July 15, 2015.

On August 2, 2015, Barnes & Noble completed the Spin-Off of Barnes & Noble Education and distributed, on a pro rata basis, all of the shares of B&N Education common stock to the Company's stockholders of record as of July 27, 2015. These Barnes & Noble stockholders of record as of July 27, 2015 received a distribution of 0.632 shares of B&N Education common stock for each share of Barnes & Noble common stock held as of the record date. Immediately following the completion of the Spin-Off, the Company's stockholders owned 100% of the outstanding shares of common stock of B&N Education. Following the Spin-Off, B&N Education operates as an independent public company and as the parent of Barnes & Noble College, trading on New York Stock Exchange under the ticker symbol "BNED".

In connection with the separation of B&N Education, the Company and B&N Education entered into a Separation and Distribution Agreement on July 14, 2015 and several other ancillary agreements on August 2, 2015. These agreements govern the relationship between the Company and B&N Education after the separation and allocate between the Company and B&N Education various assets, liabilities, rights and obligations following the separation, including employee benefits, intellectual property, information technology, insurance and tax-related assets and liabilities. The agreements also describe the Company's future commitments to provide B&N Education with certain transition services.

This Spin-Off is expected to be a non-taxable event for Barnes & Noble and its shareholders, and Barnes & Noble's U.S. shareholders (other than those subject to special rules) generally will not recognize gain or loss as a result of the distribution of B&N Education shares.

**2. History of Barnes & Noble Education, Inc.**

On September 30, 2009, Barnes & Noble acquired Barnes & Noble College Booksellers, LLC (B&N College) from Leonard and Louise Riggio. From that date until October 4, 2012, B&N College was wholly owned by Barnes & Noble Booksellers, Inc. B&N Education was initially incorporated under the name NOOK Media Inc. in July 2012 to hold Barnes & Noble's B&N College and NOOK digital businesses. On October 4, 2012, Microsoft Corporation (Microsoft) acquired a 17.6%

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non-controlling preferred membership interest in B&N Education's subsidiary B&N Education, LLC (formerly NOOK Media LLC) (the LLC), and through B&N Education, Barnes & Noble maintained an 82.4% controlling interest of the B&N College and NOOK digital businesses.

On January 22, 2013, Pearson Education, Inc. (Pearson) acquired a 5% non-controlling preferred membership interest in the LLC, entered into a commercial agreement with the LLC relating to the B&N College business and received warrants to purchase an additional preferred membership interest in the LLC.

On December 4, 2014, B&N Education re-acquired Microsoft's interest in the LLC in exchange for cash and common stock of Barnes & Noble and the Microsoft commercial agreement was terminated effective as of such date. On December 22, 2014, B&N Education also re-acquired Pearson's interest in the LLC and certain related warrants previously issued to Pearson. In connection with these transactions, Barnes & Noble entered into contingent payment agreements with Microsoft and Pearson providing for additional payments upon the occurrence of certain events, including upon a sale of the NOOK digital business. As a result of these transactions, Barnes & Noble owned, prior to the Spin-Off, 100% of B&N Education.

On May 1, 2015, B&N Education distributed to Barnes & Noble all of the membership interests in B&N Education's NOOK digital business. As a result, B&N Education ceased to own any interest in the NOOK digital business, which remains a wholly owned subsidiary of Barnes & Noble.

### 3. Discontinued Operations of Barnes & Noble Education, Inc.

The Company has recognized the separation of B&N Education in accordance with Accounting Standards Codification (ASC) 205-20, *Discontinued Operations*. As such, the historical results of Barnes & Noble Education have been adjusted to include separation-related costs and exclude corporate allocations with B&N Retail and have been classified as discontinued operations.

Discontinued operations in the 39 weeks ended January 30, 2016 primarily consisted of pre-spin B&N Education results, investment banking fees (as they directly related to the Spin-Off), separation-related costs and excluded corporate allocation adjustments with B&N Retail.

The following unaudited financial information presents the discontinued operations for the 39 weeks ended January 30, 2016:

	<u>39 weeks ended</u> <u>January 30,</u> <u>2016</u>
Sales	\$ 238,983
Cost of sales and occupancy	186,697
Gross profit	<u>52,286</u>
Selling and administrative expenses	94,933
Depreciation and amortization	<u>13,100</u>
Operating loss from discontinued operations	(55,747)
Interest expense, net and amortization of deferred financing fees	<u>3</u>
Loss before taxes from discontinued operations	(55,750)
Income taxes	<u>(16,604)</u>
Net loss from discontinued operations	<u>\$ (39,146)</u>

### 4. EBook Settlement

The Company provided credits to eligible customers resulting from the settlement reached with Apple Inc. (Apple) in an antitrust lawsuit filed by various State Attorneys General and private class plaintiffs regarding the price of digital books. The Company's customers were entitled to \$95,707 in total credits as a result of the settlement, which is funded by Apple. If a customer's credit is not used to make a purchase within one year, the entire credit will expire. The Company estimated total activations of \$59,251 through June 2017, which are recorded as a liability to customers to the extent they have not yet been activated and as a receivable from the Apple settlement fund to the extent they have not yet been reimbursed. As of January 28, 2017, the Company's customers had activated \$56,024 in credits, of which \$48,220 were redeemed. Total receivables from the Apple settlement fund were \$5,064 as of January 28, 2017.

## 5. Merchandise Inventories

Merchandise inventories are stated at the lower of cost or market. Cost is determined primarily by the retail inventory method under the first-in, first-out (FIFO) basis. NOOK merchandise inventories are recorded based on the average cost method.

Market is determined based on the estimated net realizable value, which is generally the selling price. Reserves for non-returnable inventory are based on the Company's history of liquidating non-returnable inventory.

The Company also estimates and accrues shortage for the period between the last physical count of inventory and the balance sheet date. Shortage rates are estimated and accrued based on historical rates and can be affected by changes in merchandise mix and changes in actual shortage trends.

## 6. Revenue Recognition

Revenue from sales of the Company's products is recognized at the time of sale or shipment, other than those with multiple elements and Free On Board (FOB) destination point shipping terms. The Company accrues for estimated sales returns in the period in which the related revenue is recognized based on historical experience. ECommerce revenue from sales of products ordered through the Company's websites is recognized upon estimated delivery and receipt of the shipment by its customers. Freight costs are included within the Company's cost of sales and occupancy. Sales taxes collected from retail customers are excluded from reported revenues. All of the Company's sales are recognized as revenue on a "net" basis, including sales in connection with any periodic promotions offered to customers. The Company does not treat any promotional offers as expenses.

In accordance with ASC 605-25, *Revenue Recognition, Multiple-Element Arrangements*, and Accounting Standards Updates (ASU) 2009-13 and 2009-14, for multiple-element arrangements that involve tangible products that contain software that is essential to the tangible product's functionality, undelivered software elements that relate to the tangible product's essential software and other separable elements, the Company allocates revenue to all deliverables using the relative selling-price method. Under this method, revenue is allocated at the time of sale to all deliverables based on their relative selling price using a specific hierarchy. The hierarchy is as follows: vendor-specific objective evidence, third-party evidence of selling price, or best estimate of selling price. NOOK<sup>®</sup> device revenue is recognized at the segment point of sale.

The Company includes post-service customer support (PCS) in the form of software updates and potential increased functionality on a when-and-if-available basis with the purchase of a NOOK<sup>®</sup> from the Company. Using the relative selling-price method described above, the Company allocates revenue based on the best estimate of selling price for the deliverables as no vendor-specific objective evidence or third-party evidence exists for any of the elements. Revenue allocated to NOOK<sup>®</sup> and the software essential to its functionality is recognized at the time of sale, provided all other conditions for revenue recognition are met. Revenue allocated to the PCS is deferred and recognized on a straight-line basis over the 2-year estimated life of a NOOK<sup>®</sup> device.

The average percentage of a NOOK<sup>®</sup>'s sales price that is deferred for undelivered items and recognized over its 2-year estimated life ranges between 0% and 5%, depending on the type of device sold. The amount of NOOK<sup>®</sup>-related deferred revenue as of January 28, 2017, January 30, 2016 and April 30, 2016 was \$279, \$283 and \$160, respectively. These amounts are classified on the Company's balance sheet in accrued liabilities for the portion that is subject to deferral for one year or less and other long-term liabilities for the portion that is subject to deferral for more than one year.

The Company also pays certain vendors who distributed NOOK<sup>®</sup> a commission on the content sales sold through that device. The Company accounted for these transactions as a reduction in the sales price of the NOOK<sup>®</sup> based on historical trends of content sales and a liability was established for the estimated commission expected to be paid over the life of the product. The Company recognizes revenue of the content at the point of sale of the content. The Company records revenue from sales of digital content, sales of third-party extended warranties, service contracts and other products, for which the Company is not obligated to perform, and for which the Company does not meet the criteria for gross revenue recognition under ASC 605-45-45, *Reporting Revenue Gross as a Principal versus Net as an Agent*, on a net basis. All other revenue is recognized on a gross basis.

The Company rents physical textbooks. Revenue from the rental of physical textbooks is deferred and recognized over the rental period commencing at point of sale. The Company offers a buyout option to allow the purchase of a rented book at the end of the semester. The Company records the buyout purchase when the customer exercises and pays the buyout option price. In these instances, the Company would accelerate any remaining deferred rental revenue at the point of sale.

NOOK acquires the rights to distribute digital content from publishers and distributes the content on [www.barnesandnoble.com](http://www.barnesandnoble.com), NOOK<sup>®</sup> devices and other eBookstore platforms. Certain digital content is distributed under an agency pricing model, in which the publishers set prices for eBooks and NOOK receives a commission on content sold through the eBookstore. The majority of the Company's eBooks are sold under the agency model.

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The Barnes & Noble Member Program offers members greater discounts and other benefits for products and services, as well as exclusive offers and promotions via e-mail or direct mail, for an annual fee of \$25.00, which is non-refundable after the first 30 days. Revenue is recognized over the 12-month period based upon historical spending patterns for Barnes & Noble Members.

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. ASU 2014-09, as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Earlier application is permitted for annual reporting periods beginning after December 15, 2016. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company has not yet selected a transition method nor has it determined the impact of adoption on its consolidated financial statements.

#### **7. Research and Development Costs for Software Products**

The Company follows the guidance in ASC 985-20, *Cost of Software to Be Sold, Leased or Marketed*, regarding research and development costs for software products to be sold, leased, or otherwise marketed. Capitalization of software development costs begins upon the establishment of technological feasibility and is discontinued when the product is available for sale. A certain amount of judgment and estimation is required to assess when technological feasibility is established, as well as for the ongoing assessment of the recoverability of capitalized costs. The Company's products reach technological feasibility shortly before the products are released and, therefore, research and development costs are generally expensed as incurred.

#### **8. Internal-Use Software and Website Development Costs**

Direct costs incurred to develop software for internal use and website development costs are capitalized and amortized over an estimated useful life of three to seven years. The Company capitalized costs, primarily related to labor, consulting, hardware and software, of \$14,696 and \$24,158 during the 39 weeks ended January 28, 2017 and January 30, 2016, respectively. Amortization of previously capitalized amounts was \$5,403 and \$7,584 during the 13 weeks ended January 28, 2017 and January 30, 2016, respectively, and \$18,152 and \$22,826 during the 39 weeks ended January 28, 2017 and January 30, 2016, respectively. Costs related to the design or maintenance of internal-use software and website development are expensed as incurred.

#### **9. Net Earnings (Loss) per Share**

In accordance with ASC 260-10-45, *Share-Based Payment Arrangements and Participating Securities and the Two-Class Method*, unvested share-based payment awards that contain rights to receive non-forfeitable dividends are considered participating securities. The Company's unvested restricted shares and unvested restricted stock units granted prior to July 15, 2015 and shares issuable under the Company's deferred compensation plan are considered participating securities. Cash dividends to restricted stock units and performance-based stock units granted on or after July 15, 2015 are not distributed until and except to the extent that the restricted stock units vest, and in the case of performance-based stock units, until and except to the extent that the performance metrics are achieved or are otherwise deemed satisfied. Stock options do not receive cash dividends. As such, these awards are not considered participating securities.

Basic earnings per common share are calculated by dividing the net income, adjusted for preferred dividends and income allocated to participating securities, by the weighted average number of common shares outstanding during the period. Diluted net income per common share reflects the dilution that would occur if any potentially dilutive instruments were exercised or converted into common shares. The dilutive effect of participating securities is calculated using the more dilutive of the treasury stock method or two-class method. Other potentially dilutive securities include preferred stock, stock options, restricted stock units granted after July 15, 2015, and performance-based stock units and are included in diluted shares to the extent they are dilutive under the treasury stock method for the applicable periods.

During periods of net loss, no effect is given to the participating securities because they do not share in the losses of the Company. The Company's outstanding non-participating securities consisting of dilutive stock options and restricted stock units of 132,686, 68,153, 155,113 and 137,466 for the 13 weeks ended January 28, 2017 and January 30, 2016, and the 39 weeks ended January 28, 2017 and January 30, 2016, respectively, and accretion/payments of dividends on preferred shares were also excluded from the calculation of loss per share using the two-class method because the effect would be antidilutive.

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The following is a reconciliation of the Company's basic and diluted income (loss) per share calculation:

	13 weeks ended		39 weeks ended	
	January 28, 2017	January 30, 2016	January 28, 2017	January 30, 2016
<b>Numerator for basic income (loss) per share:</b>				
Net income from continuing operations	\$ 70,276	80,262	\$ 35,451	45,308
Inducement fee paid upon conversion of Series J preferred stock	—	—	—	(3,657)
Preferred stock dividends paid in shares	—	—	—	(1,783)
Accretion of dividends on preferred stock	—	—	—	(4,204)
Less allocation of dividends to participating securities	(168)	(307)	(559)	(999)
Less allocation of undistributed earnings to participating securities	(948)	(1,871)	(42)	—
Net income from continuing operations available to common shareholders	\$ 69,160	78,084	\$ 34,850	34,665
Net loss from discontinued operations available to common shareholders	—	—	—	(39,146)
Net income (loss) available to common shareholders	\$ 69,160	78,084	\$ 34,850	(4,481)
<b>Numerator for diluted income (loss) per share:</b>				
Net income from continuing operations available to common shareholders	\$ 69,160	78,084	\$ 34,850	34,665
Accretion of dividends on preferred stock (a)	—	—	—	—
Allocation of undistributed earnings to participating securities	948	1,871	42	—
Less diluted allocation of undistributed earnings to participating securities	(946)	(1,869)	(42)	—
Net income from continuing operations available to common shareholders	\$ 69,162	78,086	\$ 34,850	34,665
Net loss from discontinued operations available to common shareholders	—	—	—	(39,146)
Net income (loss) available to common shareholders	\$ 69,162	78,086	\$ 34,850	(4,481)
<b>Denominator for basic income (loss) per share:</b>				
Basic weighted average common shares	71,581	74,856	72,232	71,987
<b>Denominator for diluted income (loss) per share:</b>				
Basic weighted average common shares	71,581	74,856	72,232	71,987
Average dilutive options	68	68	77	136
Average dilutive non-participating securities	65	—	78	1
Diluted weighted average common shares	71,714	74,924	72,387	72,124
<b>Basic income (loss) per common share:</b>				
Income from continuing operations	\$ 0.97	1.04	\$ 0.48	0.48
Loss from discontinued operations	—	—	—	(0.54)
Basic income (loss) per common share	\$ 0.97	1.04	\$ 0.48	(0.06)
<b>Diluted income (loss) per common share:</b>				
Income from continuing operations	\$ 0.96	1.04	\$ 0.48	0.48
Loss from discontinued operations	—	—	—	(0.54)
Diluted income (loss) per common share	\$ 0.96	1.04	\$ 0.48	(0.06)

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- (a) Although the Company was in a net income position during the 39 weeks ended January 30, 2016, the dilutive effect of the Company's convertible preferred shares were excluded from the calculation of income per share using the two-class method because the effect would be antidilutive.

## 10. Segment Reporting

The Company's two operating segments are B&N Retail and NOOK.

### ***B&N Retail***

This segment includes 634 bookstores as of January 28, 2017, primarily under the Barnes & Noble Booksellers trade name. These Barnes & Noble stores generally offer a comprehensive trade book title base, a café, and departments dedicated to Juvenile, Toys & Games, DVDs, Music & Vinyl, Gift, Magazine, Bargain products and a dedicated NOOK<sup>®</sup> area. The stores also offer a calendar of ongoing events, including author appearances and children's activities. The B&N Retail segment also includes the Company's eCommerce website, www.barnesandnoble.com, and its publishing operation, Sterling Publishing Co., Inc.

### ***NOOK***

This segment includes the Company's digital business, including the development and support of the Company's NOOK<sup>®</sup> product offerings. The digital business includes digital content such as eBooks, digital newsstand and sales of NOOK<sup>®</sup> devices and accessories to B&N Retail.

Summarized financial information concerning the Company's reportable segments is presented below:

#### *Sales by Segment*

	13 weeks ended		39 weeks ended	
	January 28, 2017	January 30, 2016	January 28, 2017	January 30, 2016
B&N Retail	\$1,276,039	1,378,887	\$2,988,471	3,178,590
NOOK	38,434	51,737	114,524	149,568
Elimination (a)	(13,565)	(16,677)	(29,657)	(40,998)
Total	<u>\$1,300,908</u>	<u>1,413,947</u>	<u>\$3,073,338</u>	<u>3,287,160</u>

#### *Sales by Product Line*

	13 weeks ended		39 weeks ended	
	January 28, 2017	January 30, 2016	January 28, 2017	January 30, 2016
Media (b)	66%	67%	69%	70%
Digital (c)	3%	4%	3%	5%
Other (d)	31%	29%	28%	25%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

#### *Depreciation and Amortization*

	13 weeks ended		39 weeks ended	
	January 28, 2017	January 30, 2016	January 28, 2017	January 30, 2016
B&N Retail	\$ 25,236	26,853	\$ 74,756	78,079
NOOK	3,816	8,294	15,327	25,785
Total	<u>\$ 29,052</u>	<u>35,147</u>	<u>\$ 90,083</u>	<u>103,864</u>

#### *Operating Income (Loss)*

	13 weeks ended		39 weeks ended	
	January 28, 2017	January 30, 2016	January 28, 2017	January 30, 2016
B&N Retail	\$ 134,991	153,304	\$ 106,541	148,166
NOOK	(6,204)	(19,448)	(28,408)	(75,554)
Total	<u>\$ 128,787</u>	<u>133,856</u>	<u>\$ 78,133</u>	<u>72,612</u>

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<i>Capital Expenditures</i>	13 weeks ended		39 weeks ended	
	January 28, 2017	January 30, 2016	January 28, 2017	January 30, 2016
B&N Retail	\$ 19,615	15,507	\$ 68,822	60,051
NOOK	2,313	3,558	4,843	9,734
<b>Total</b>	<b>\$ 21,928</b>	<b>19,065</b>	<b>\$ 73,665</b>	<b>69,785</b>

  

<i>Total Assets (e)</i>	As of	As of
	January 28, 2017	January 30, 2016
B&N Retail	\$ 1,924,220	2,013,282
NOOK	44,736	75,322
<b>Total</b>	<b>\$ 1,968,956</b>	<b>2,088,604</b>

- (a) Represents sales from NOOK to B&N Retail on a sell-through basis.  
(b) Includes tangible books, music, movies, rentals and newsstand.  
(c) Includes NOOK<sup>®</sup>, related accessories, eContent and warranties.  
(d) Includes Toys & Games, café products, gifts and miscellaneous other.  
(e) Excludes intercompany balances.

A reconciliation of operating income from reportable segments to income from continuing operations before taxes in the consolidated financial statements is as follows:

	13 weeks ended		39 weeks ended	
	January 28, 2017	January 30, 2016	January 28, 2017	January 30, 2016
Reportable segments operating income	\$ 128,787	133,856	\$ 78,133	72,612
Interest expense, net and amortization of deferred financing costs	2,076	1,976	5,666	7,233
<b>Consolidated income before taxes</b>	<b>\$ 126,711</b>	<b>131,880</b>	<b>\$ 72,467</b>	<b>65,379</b>

## 11. Intangible Assets and Goodwill

<u>Amortizable Intangible Assets</u>	Useful Life	As of January 28, 2017		
		Gross Carrying Amount	Accumulated Amortization	Total
Technology	5-10	\$ 10,710	(9,895)	\$ 815
Distribution contracts	10	8,325	(8,127)	198
Other	3-10	6,418	(6,356)	62
		<u>\$ 25,453</u>	<u>(24,378)</u>	<u>\$ 1,075</u>

### Unamortizable Intangible Assets

Trade name	\$ 293,400
Publishing contracts	15,894
	<u>\$ 309,294</u>
Total amortizable and unamortizable intangible assets as of January 28, 2017	<u>\$ 310,369</u>

<u>Amortizable Intangible Assets</u>	Useful Life	As of January 30, 2016		
		Gross Carrying Amount	Accumulated Amortization	Total
Technology	5-10	\$ 10,710	(9,487)	\$ 1,223
Distribution contracts	10	8,325	(7,831)	494
Other	3-10	6,350	(6,295)	55
		<u>\$ 25,385</u>	<u>(23,613)</u>	<u>\$ 1,772</u>

<b>Unamortizable Intangible Assets</b>	
Trade name	\$293,400
Publishing contracts	15,894
	<u>\$309,294</u>
Total amortizable and unamortizable intangible assets as of January 30, 2016	<u>\$311,066</u>

All amortizable intangible assets are being amortized over their useful life on a straight-line basis.

<b>Aggregate Amortization Expense</b>	
For the 39 weeks ended January 28, 2017	\$577
For the 39 weeks ended January 30, 2016	\$825

<b>Estimated Amortization Expense</b>	
(12 months ending on or about April 30)	
2017	\$770
2018	\$558
2019	\$324

The carrying amount of goodwill was \$211,276 and \$215,197 as of January 28, 2017 and January 30, 2016, respectively.

## 12. Gift Cards

The Company sells gift cards, which can be used in its stores, on [www.barnesandnoble.com](http://www.barnesandnoble.com), on NOOK<sup>®</sup> devices and at B&N Education stores. The Company does not charge administrative or dormancy fees on gift cards and gift cards have no expiration dates. Upon the purchase of a gift card, a liability is established for its cash value. Revenue associated with gift cards is deferred until redemption of the gift card. Gift cards redeemed at B&N Education are funded by the gift card liability at the Company. Over time, a portion of the gift cards issued is typically not redeemed. The Company estimates the portion of the gift card liability for which the likelihood of redemption is remote based upon the Company's historical redemption patterns. The Company records this amount in revenue on a straight-line basis over a 12-month period beginning in the 13<sup>th</sup> month after the month the gift card was originally sold. Additional breakage may be required if gift card redemptions continue to run lower than historical patterns.

The Company recognized gift card breakage of \$20,805 and \$13,522 during the 13 weeks ended January 28, 2017 and January 30, 2016, respectively, and \$30,561 and \$24,110 during the 39 weeks ended January 28, 2017 and January 30, 2016, respectively. The Company had gift card liabilities of \$384,830 and \$384,915 as of January 28, 2017 and January 30, 2016, respectively. Gift card breakage increased over last year as redemptions continue to run lower than historical patterns.

## 13. Other Long-Term Liabilities

Other long-term liabilities consist primarily of deferred rent, tax liabilities and reserves, long-term insurance liabilities and asset retirement obligations. The Company provides for minimum rent expense over the lease terms (including the build-out period) on a straight-line basis. The excess of such rent expense over actual lease payments (net of tenant allowances) is classified as deferred rent. Other long-term liabilities also include store closing expenses and long-term deferred revenues. The Company had the following other long-term liabilities at January 28, 2017, January 30, 2016 and April 30, 2016:

	January 28, 2017	January 30, 2016	April 30, 2016
Deferred rent	\$ 62,394	74,835	70,006
Tax liabilities and reserves	9,157	32,601	13,758
Insurance liabilities	14,998	15,689	15,219
Asset retirement obligations	13,381	12,171	11,268
Other	5,282	3,372	3,933
Total other long-term liabilities	<u>\$ 105,212</u>	<u>138,668</u>	<u>114,184</u>

#### **14. Income Taxes**

The Company recorded an income tax provision of \$56,435 on a pre-tax income of \$126,711 during the 13 weeks ended January 28, 2017, which represented an effective income tax rate of 44.5%. The Company recorded an income tax provision of \$51,618 on pre-tax income of \$131,880 during the 13 weeks ended January 30, 2016, which represented an effective income tax rate of 39.1%. The Company's effective tax rate for the 13 weeks ended January 28, 2017 and January 30, 2016, respectively, differs from the statutory rate due to the impact of permanent items such as meals and entertainment, non-deductible executive compensation, tax credits, changes in uncertain tax positions, the impact of return to provision adjustments and state tax provision, net of federal benefit. The Company continues to maintain a valuation allowance against certain state items.

The Company recorded an income tax provision of \$37,016 on a pre-tax income of \$72,467 during the 39 weeks ended January 28, 2017, which represented an effective income tax rate of 51.1%. The Company recorded an income tax provision of \$20,071 on pre-tax income of \$65,379 during the 39 weeks ended January 30, 2016, which represented an effective income tax rate of 30.7%. The Company's effective tax rate for the 39 weeks ended January 28, 2017 and January 30, 2016, respectively, differs from the statutory rate due to the impact of permanent items such as meals and entertainment, non-deductible executive compensation, tax credits, changes in uncertain tax positions, the impact of return to provision adjustments and state tax provision, net of federal benefit. The Company continues to maintain a valuation allowance against certain state items.

The Company believes that it is reasonably possible that the total amount of unrecognized tax benefits at January 28, 2017 could decrease by approximately \$5,808 within the next twelve months, as a result of settlement of certain tax audits or lapses of statutes of limitations, which could impact the effective tax rate.

#### **15. Fair Values of Financial Instruments**

In accordance with ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), the fair value of an asset is considered to be the price at which the asset could be sold in an orderly transaction between unrelated, knowledgeable and willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Assets and liabilities recorded at fair value are measured using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1 – Observable inputs that reflect quoted prices in active markets
- Level 2 – Inputs other than quoted prices in active markets that are either directly or indirectly observable
- Level 3 – Unobservable inputs in which little or no market data exists, therefore requiring the Company to develop its own assumptions

The Company's financial instruments include cash, receivables, gift cards, accrued liabilities, accounts payable and its credit facility. The fair values of cash, receivables, gift cards, accrued liabilities and accounts payable approximate carrying values because of the short-term nature of these instruments. The Company believes that its credit facility approximates fair value since interest rates are adjusted to reflect current rates.

#### **16. Credit Facility**

Prior to August 3, 2015, the Company was party to an amended and restated credit facility with Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and other lenders, dated as of April 29, 2011 (as amended and modified through August 3, 2015, the Prior Credit Facility), consisting of up to \$1,000,000 in aggregate commitments under a five-year asset-backed revolving credit facility, which was scheduled to expire on April 29, 2016.

On August 3, 2015, the Company and certain of its subsidiaries entered into a credit agreement (New Credit Agreement) with Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and the other lenders from time to time party thereto, under which the lenders committed to provide a five-year asset-backed revolving credit facility in an aggregate committed principal amount of up to \$700,000 (Revolving Credit Facility). On September 30, 2016, the Company amended the New Credit Agreement to provide for a new "first-in, last-out" revolving credit facility (the FILO Credit Facility and, together with the Revolving Credit Facility, the New Credit Facility) in an aggregate principal amount of up to \$50,000, which supplements availability under the Revolving Credit Facility. The Company generally must draw down the FILO Credit Facility before making any borrowings under the Revolving Credit Facility.

Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC, Wells Fargo Bank, N.A. and SunTrust Robinson Humphrey, Inc. are the joint lead arrangers for the New Credit Facility. The New Credit Facility replaced the Prior Credit Facility. Proceeds from the New Credit Facility are used for general corporate purposes, including seasonal working capital needs.

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The Company and certain of its subsidiaries are permitted to borrow under the New Credit Facility. The New Credit Facility is secured by substantially all of the inventory, accounts receivable and related assets of the borrowers under the New Credit Facility (collectively, the Loan Parties), but excluding the equity interests in the Company and its subsidiaries, intellectual property, equipment and certain other property. Borrowings under the New Credit Facility are limited to a specified percentage of eligible collateral. The Company has the option to request an increase in commitments under the New Credit Facility of up to \$250,000, subject to certain restrictions.

Interest under the Revolving Credit Facility accrues, at the election of the Company, at a LIBOR or alternate base rate, plus, in each case, an applicable interest rate margin, which is determined by reference to the level of excess availability under the Revolving Credit Facility. Through the end of the fiscal quarter during which the closing of the Revolving Credit Facility occurred, loans under the Revolving Credit Facility bore interest at LIBOR plus 1.750% per annum, in the case of LIBOR borrowings, or at the alternate base rate plus 0.750% per annum, in the alternative, and thereafter the interest rate began to fluctuate between LIBOR plus 2.000% per annum and LIBOR plus 1.500% per annum (or between the alternate base rate plus 1.000% per annum and the alternate base rate plus 0.500% per annum), based upon the average daily availability under the Revolving Credit Facility for the immediately preceding fiscal quarter. Interest under the FILO Credit Facility accrues, at the election of the Company, at a LIBOR or alternate base rate, plus, in each case, an applicable interest rate margin, which is also determined by reference to the level of excess availability under the Revolving Credit Facility. Loans under the FILO Credit Facility bear interest at 1.000% per annum more than loans under the Revolving Credit Facility.

The New Credit Agreement contains customary negative covenants, which limit the Company's ability to incur additional indebtedness, create liens, make investments, make restricted payments or specified payments and merge or acquire assets, among other things. In addition, if excess availability under the New Credit Facility were to fall below certain specified levels, certain additional covenants (including fixed charge coverage ratio requirements) would be triggered, and the lenders would assume dominion and control over the Loan Parties' cash.

The New Credit Agreement contains customary events of default, including payment defaults, material breaches of representations and warranties, covenant defaults, default on other material indebtedness, customary ERISA events of default, bankruptcy and insolvency, material judgments, invalidity of liens on collateral, change of control or cessation of business. The New Credit Agreement also contains customary affirmative covenants and representations and warranties.

The Company wrote off \$460 of deferred financing fees related to the Prior Credit Facility during the second quarter of fiscal 2016 and the remaining unamortized deferred financing fees of \$3,542 were deferred and are being amortized over the five-year term of the New Credit Facility. The Company also incurred \$5,701 of fees to secure the New Credit Facility, which are being amortized over the five-year term accordingly. During the second quarter of fiscal 2017, the Company incurred \$474 of fees to secure the FILO Credit Facility, which are being amortized over the same term as the New Credit Facility.

The Company had \$18,200 and \$0 of outstanding debt under the New Credit Facility as of January 28, 2017 and January 30, 2016, respectively. The Company had \$38,895 and \$47,895 of outstanding letters of credit under its New Credit Facility as of January 28, 2017 and January 30, 2016, respectively.

## 17. Stock-Based Compensation

For the 13 and 39 weeks ended January 28, 2017 and January 30, 2016, the Company recognized stock-based compensation expense in selling and administrative expenses as follows:

	13 weeks ended		39 weeks ended	
	January 28, 2017	January 30, 2016	January 28, 2017	January 30, 2016
Restricted Stock Expense	\$ 210	210	\$ 700	600
Restricted Stock Units Expense	2,004	2,573	4,114	9,487
Performance-Based Stock Unit Expense	158	189	720	439
Stock Option Expense	—	27	—	417
Stock-Based Compensation Expense	<u>\$ 2,372</u>	<u>2,999</u>	<u>\$ 5,534</u>	<u>10,943</u>

## **18. CEO Departure**

On October 26, 2016, the Company entered into a release agreement (the Release Agreement) with its former Chief Executive Officer, Ronald D. Boire. Under the Release Agreement, Mr. Boire and the Company agreed to release claims against each other in connection with Mr. Boire's termination of employment in exchange for a cash payment contemplated by his employment agreement. In connection with the execution of the Release Agreement, Mr. Boire also agreed to forfeit all equity awards that were granted to him by the Company.

The cash payment in connection with the Release Agreement totaled \$4,826. The Company has previously recognized \$1,933 in expense relating to the equity awards granted to Mr. Boire during his employment. Taking into account the reversal of those expenses, the Company recorded a net charge related to the cash payment to Mr. Boire in connection with the Release Agreement of \$2,892 within selling and administrative expenses during the second quarter of fiscal 2017.

## **19. Pension and Other Postretirement Benefit Plans**

As of December 31, 1999, substantially all employees of the Company were covered under a non-contributory defined benefit pension plan (the Pension Plan). As of January 1, 2000, the Pension Plan was amended so that employees no longer earn benefits for subsequent service. Effective December 31, 2004, the Barnes & Noble.com Employees' Retirement Plan (the B&N.com Retirement Plan) was merged with the Pension Plan. Substantially all employees of Barnes & Noble.com were covered under the B&N.com Retirement Plan. As of July 1, 2000, the B&N.com Retirement Plan was amended so that employees no longer earn benefits for subsequent service. Subsequent service continued to be the basis for vesting of benefits not yet vested at December 31, 1999 and June 30, 2000 for the Pension Plan and the B&N.com Retirement Plan, respectively.

On June 18, 2014, the Company's Board of Directors approved a resolution to terminate the Pension Plan. The Pension Plan termination was effective November 1, 2014 and the accrued benefit for active participants was vested as of such date. As a result of the Pension Plan termination, pension liability and other comprehensive loss increased by \$15,747, before tax, during the 13 weeks ended August 2, 2014. The pension liability was settled in either a lump-sum payment or a purchased annuity. A special lump-sum opportunity was offered to the terminated vested participants in the Pension Plan during the 13 weeks ended November 1, 2014, which triggered settlement accounting in the period ended January 31, 2015. The settlement represented 735 participants who elected to receive a lump sum of their benefit, totaling \$15,190. The distributions primarily took place in December 2014 and resulted in a settlement charge of \$7,317, which was reclassified from other comprehensive income to selling and administrative expenses during fiscal 2015. In addition, the Pension Plan received a favorable determination letter, dated October 15, 2015, from the Internal Revenue Service. This determination letter rules that the termination of the Pension Plan, as amended, does not affect its tax-qualified status.

The net impact of the Pension Plan termination, special lump-sum opportunity, settlement accounting and remeasurement and regular plan experience, was an increase in pension liability of \$3,062 and a decrease in other comprehensive income of \$6,503, before tax, in fiscal 2015.

In fiscal 2016, there was a final Pension Plan termination lump-sum opportunity offered to the remaining 2,300 active and terminated vested participants at the final Pension Plan termination distribution date. To effectuate the full plan liquidation, lump-sum payments totaling approximately \$18,100 were distributed in March 2016 to about 1,800 participants who elected to receive an immediate distribution of their benefit as part of the plan termination lump-sum window. Benefits for the remaining plan population were transferred to Massachusetts Mutual Life Insurance Company for an annuity purchase premium of \$34,500, which was paid on March 28, 2016.

Pension expense was \$(174) and \$1,247 for the 13 weeks ended January 28, 2017 and January 30, 2016, respectively, and \$276 and \$3,930 for the 39 weeks ended January 28, 2017 and January 30, 2016, respectively. There were no pension liabilities recorded at January 28, 2017. Pension liabilities were \$13,047 at January 30, 2016 and recorded within accrued liabilities.

The Company maintains a defined contribution plan (the Savings Plan) for the benefit of substantially all employees. Total Company contributions charged to employee benefit expenses for the Savings Plan were \$2,621 and \$3,058 for the 13 weeks ended January 28, 2017 and January 30, 2016, respectively, and \$8,782 and \$9,231 for the 39 weeks ended January 28, 2017 and January 30, 2016, respectively.

## **20. Samsung Commercial Agreement**

On June 4, 2014, NOOK Digital, LLC (NOOK Digital) (formerly NOOK Media Sub and barnesandnoble.com llc), a wholly owned subsidiary of B&N Education as of such date and a subsidiary of Barnes & Noble, entered into a commercial agreement (Agreement) with Samsung Electronics America, Inc. (Samsung) relating to tablets.

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Pursuant to the Agreement, NOOK Digital, after good faith consultations with Samsung and subject to Samsung's agreement, selected Samsung tablet devices under development to be customized and co-branded by NOOK Digital. Such devices are produced by Samsung. The co-branded NOOK® tablet devices are sold by NOOK Digital through Barnes & Noble retail stores, [www.barnesandnoble.com](http://www.barnesandnoble.com) and [www.nook.com](http://www.nook.com).

Under the Agreement, NOOK Digital committed to purchase a minimum of 1,000,000 NOOK® -Samsung co-branded devices from Samsung within 12 months after the launch of the initial co-branded device, which occurred on August 20, 2014. The 12-month period was automatically extended by three months due to the quantity of sales of such co-branded devices through December 31, 2014, and the period was further extended until June 30, 2016 by an amendment executed by the parties on March 7, 2015.

NOOK Digital and Samsung have agreed to coordinate customer service for the co-branded NOOK® devices and have both agreed to a license of intellectual property to promote and market the devices. Additionally, Samsung has agreed to fund a marketing fund for the co-branded NOOK® devices at the initial launch and for the duration of the Agreement.

The Agreement had a two-year term, with certain termination rights, including termination (i) by NOOK Digital for a Samsung material default; (ii) by Samsung for a NOOK Digital material default; (iii) by NOOK Digital if Samsung fails to meet its shipping and delivery obligations in any material respect on a timely basis; and (iv) by either party upon insolvency or bankruptcy of the other party.

On May 17, 2016, NOOK Digital and Samsung amended the Agreement, pursuant to which NOOK Digital agreed to a minimum purchase commitment during the first 12 months after launch of any co-branded NOOK® tablet device of total devices with a total retail value equal to \$10,000. The amended minimum purchase commitment replaces all prior purchase commitments contained in the Agreement by NOOK Digital and Samsung.

### **21. Series J Preferred Stock**

On August 18, 2011, the Company entered into an investment agreement between the Company and Liberty GIC, Inc. (Liberty), pursuant to which the Company issued and sold to Liberty, and Liberty purchased, 204,000 shares of the Company's Series J Preferred Stock, par value \$0.001 per share (Preferred Stock), for an aggregate purchase price of \$204,000 in a private placement exempt from the registration requirements of the 1933 Act. The shares of Preferred Stock were convertible, at the option of the holders, into shares of Common Stock representing 16.6% of the Common Stock outstanding as of August 29, 2011 (after giving pro forma effect to the issuance of the Preferred Stock) based on the initial conversion rate. The initial conversion rate reflected an initial conversion price of \$17.00 and was subject to adjustment in certain circumstances. The initial dividend rate for the Preferred Stock was equal to 7.75% per annum of the initial liquidation preference of the Preferred Stock paid quarterly and subject to adjustment in certain circumstances.

On April 8, 2014, Liberty sold the majority of its shares to qualified institutional buyers in reliance on Rule 144A under the Securities Act and had retained an approximate 10% stake of its initial investment. As a result, Liberty no longer had the right to elect two preferred stock directors to the Company's Board. Additionally, the consent rights and pre-emptive rights, to which Liberty was previously entitled, ceased to apply.

On June 5, 2015, the Company entered into conversion agreements with five beneficial owners (Series J Holders) of its Preferred Stock, pursuant to which each of the Series J Holders had agreed to convert (Conversion) shares of Preferred Stock it beneficially owned into shares of the Company's common stock, par value \$0.001 per share (Company Common Stock), and additionally received a cash payment from the Company in connection with the Conversion.

On July 9, 2015, the Company completed the Conversion. Pursuant to the terms of the Conversion Agreements, the Series J Holders converted an aggregate of 103,995 shares of Preferred Stock into 6,117,342 shares of Company Common Stock, and made an aggregate cash payment to the Series J Holders of \$3,657 plus cash in lieu of fractional shares in connection with the Conversion.

The number of shares of Company Common Stock issued was determined based on a conversion ratio of 58.8235 shares of Company Common Stock per share of Preferred Stock converted, which was the conversion rate in the Certificate of the Designations with respect to the Preferred Stock, dated as of August 18, 2011.

On July 10, 2015, the Company gave notice of its exercise of the right to force conversion of all outstanding shares of its Senior Convertible Redeemable Series J Preferred Stock into Company Common Stock pursuant to Section 9 of the Certificate of Designations, Preferences and Relative Participating, Optional and Other Special Rights and Qualifications, Limitations and

Restrictions of Series J Preferred Stock, dated as of August 18, 2011 (the Forced Conversion). The effective date of the Forced Conversion was July 24, 2015. On the date of the Forced Conversion, each share of Series J Preferred Stock was automatically converted into 59.8727 shares of Company Common Stock, which included shares of Company Common Stock reflecting accrued and unpaid dividends on Series J Preferred Stock. Each holder of Series J Preferred Stock received whole shares of Company Common Stock and a cash amount in lieu of fractional shares of Company Common Stock.

As a result of the transactions described above, all shares of Series J Preferred Stock were retired by the Company and are no longer outstanding.

## **22. Shareholders' Equity**

On October 20, 2015, the Company's Board of Directors authorized a new stock repurchase program of up to \$50,000 of its common shares. Stock repurchases under this program may be made through open market and privately negotiated transactions from time to time and in such amounts as management deems appropriate. The repurchase program has no expiration date and may be suspended or discontinued at any time. The Company's repurchase plan is intended to comply with the requirements of Rule 10b5-1 and Rule 10b-18 under the Securities Exchange Act of 1934, as amended. During the 13 and 39 weeks ended January 28, 2017, the Company repurchased 311,020 shares at a cost of \$3,493 and 2,019,798 shares at a cost of \$23,282, respectively, under this plan. The Company has remaining capacity of \$1 under this program as of January 28, 2017. As of January 28, 2017, the Company has repurchased 40,092,951 shares at a cost of approximately \$1,085,300 since the inception of the Company's stock repurchase programs. The repurchased shares are held in treasury.

## **23. Legal Proceedings**

The Company is involved in a variety of claims, suits, investigations and proceedings that arise from time to time in the ordinary course of its business, including actions with respect to contracts, intellectual property, taxation, employment, benefits, securities, personal injuries and other matters. The results of these proceedings in the ordinary course of business are not expected to have a material adverse effect on the Company's consolidated financial position or results of operations.

The Company records a liability when it believes that it is both probable that a liability will be incurred, and the amount of loss can be reasonably estimated. The Company evaluates, at least quarterly, developments in its legal matters that could affect the amount of liability that has been previously accrued and makes adjustments as appropriate. Significant judgment is required to determine both probability and the estimated amount of a loss or potential loss. The Company may be unable to reasonably estimate the reasonably possible loss or range of loss for a particular legal contingency for various reasons, including, among others: (i) if the damages sought are indeterminate; (ii) if proceedings are in the early stages; (iii) if there is uncertainty as to the outcome of pending proceedings (including motions and appeals); (iv) if there is uncertainty as to the likelihood of settlement and the outcome of any negotiations with respect thereto; (v) if there are significant factual issues to be determined or resolved; (vi) if the proceedings involve a large number of parties; (vii) if relevant law is unsettled or novel or untested legal theories are presented; or (viii) if the proceedings are taking place in jurisdictions where the laws are complex or unclear. In such instances, there is considerable uncertainty regarding the ultimate resolution of such matters, including a possible eventual loss, if any.

Legal matters are inherently unpredictable and subject to significant uncertainties, some of which are beyond the Company's control. As such, there can be no assurance that the final outcome of these matters will not materially and adversely affect the Company's business, financial condition, results of operations, or cash flows.

Except as otherwise described below with respect to the Adrea LLC (Adrea) matter, the Company has determined that a loss is reasonably possible with respect to the matters described below. Based on its current knowledge, the Company has determined that the amount of loss or range of loss that is reasonably possible (or, in the case of Adrea, probable), including any reasonably possible (or, in the case of Adrea, probable) losses in excess of amounts already accrued, is not estimable.

The following is a discussion of the material legal matters involving the Company.

### ***PIN Pad Litigation***

As previously disclosed, the Company discovered that PIN pads in certain of its stores had been tampered with to allow criminal access to card data and PIN numbers on credit and debit cards swiped through the terminals. Following public disclosure of this matter on October 24, 2012, the Company was served with four putative class action complaints (three in federal district court in the Northern District of Illinois and one in the Northern District of California), each of which alleged on behalf of national and other classes of customers who swiped credit and debit cards in Barnes & Noble Retail stores common law claims such

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as negligence, breach of contract and invasion of privacy, as well as statutory claims such as violations of the Fair Credit Reporting Act, state data breach notification statutes, and state unfair and deceptive practices statutes. The actions sought various forms of relief including damages, injunctive or equitable relief, multiple or punitive damages, attorneys' fees, costs, and interest. All four cases were transferred and/or assigned to a single judge in the United States District Court for the Northern District of Illinois, and a single consolidated amended complaint was filed. The Company filed a motion to dismiss the consolidated amended complaint in its entirety, and in September 2013, the Court granted the motion to dismiss without prejudice. The Plaintiffs then filed an amended complaint, and the Company filed a second motion to dismiss. On October 3, 2016, the Court granted the second motion to dismiss, and dismissed the case without prejudice; in doing so, the Court permitted plaintiffs to file a second amended complaint by October 31, 2016. On October 31, 2016, the plaintiffs filed a second amended complaint. The Company filed a motion to dismiss the second amended complaint, and that motion has been fully briefed and is awaiting decision. A status hearing is scheduled for March 14, 2017.

***Cassandra Carag individually and on behalf of others similarly situated v. Barnes & Noble, Inc., Barnes & Noble Booksellers, Inc. and DOES 1 through 100 inclusive***

On November 27, 2013, former Associate Store Manager Cassandra Carag (Carag) brought suit in Sacramento County Superior Court, asserting claims on behalf of herself and all other hourly (non-exempt) Barnes & Noble employees in California in the preceding four years for unpaid regular and overtime wages based on alleged off-the-clock work, penalties and pay based on missed meal and rest breaks, and for improper wage statements, payroll records, and untimely pay at separation as a result of the alleged pay errors during employment. Via the complaint, Carag seeks to recover unpaid wages and statutory penalties for all hourly Barnes & Noble employees within California from November 27, 2009 to present. On February 13, 2014, the Company filed an Answer in the state court and concurrently requested removal of the action to federal court. On May 30, 2014, the federal court granted Plaintiff's motion to remand the case to state court and denied Plaintiff's motion to strike portions of the Answer to the Complaint (referring the latter motion to the lower court for future consideration). The Court has not yet scheduled any further hearings or deadlines.

***Adrea LLC v. Barnes & Noble, Inc., barnesandnoble.com llc and NOOK Media LLC***

With respect to the Adrea matter described herein, the Company has determined, based on its current knowledge, that a loss is probable.

On June 14, 2013, Adrea filed a complaint against Barnes & Noble, Inc., NOOK Digital, LLC (formerly barnesandnoble.com llc) and B&N Education, LLC (formerly NOOK Media LLC) (collectively, B&N) in the United States District Court for the Southern District of New York alleging that various B&N NOOK products and related online services infringe U.S. Patent Nos. 7,298,851 ('851 patent), 7,299,501 ('501 patent) and 7,620,703 ('703 patent). B&N filed its Answer on August 9, 2013, denying infringement and asserting several affirmative defenses. At the same time, B&N filed counterclaims seeking declaratory judgments of non-infringement and invalidity with respect to each of the patents-in-suit. On July 1, 2014, the Court issued a decision granting partial summary judgment in B&N's favor, and in particular granting B&N's motion to dismiss one of Adrea's infringement claims, and granting B&N's motion to limit any damages award with respect to another of Adrea's infringement claims.

Beginning October 7, 2014, through and including October 22, 2014, the case was tried to a jury in the Southern District of New York. The jury returned its verdict on October 27, 2014. The jury found no infringement with respect to the '851 patent, and infringement with respect to the '501 and '703 patents. It awarded damages in the amount of \$1,330. The jury further found no willful infringement with respect to any patent.

On July 24, 2015, the Court granted B&N's post-trial application to invalidate one of the two patents (the '501 patent) the jury found to have been infringed. On September 28, 2015, the Court heard post-trial motions on the jury's infringement and validity determinations, and on February 24, 2016, it issued a decision upholding the jury's determination of infringement and validity with respect to the '703 patent. Since the original damages award was a total award for infringement of both patents, the Court held a new trial to determine damages for infringement of the '703 patent, which trial concluded on July 15, 2016.

On December 28, 2016, the Court issued its decision on the issue of damages, finding that (a) Adrea should be entitled to a damages award of \$267, based on a reasonable royalty rate of 5.1 cents per unit, and (ii) Adrea was not entitled to any enhancement of damages, as B&N's infringement was not willful. Following letter briefing, in which Adrea asked the Court to award prejudgment interest of approximately \$90, the Court, following B&N's reasoning, added \$3 in prejudgment interest to its damages award, and on January 12, 2017 entered judgment in favor of Adrea the total amount of \$270. Adrea subsequently moved the Court for supplemental damages relating to any allegedly infringing products B&N may have sold that were not taken into account in the first verdict. In addition, Adrea asked the Clerk of the Court to tax costs against B&N in the amount of \$110. B&N is opposing both requests, and the briefing on those applications is ongoing. In the meantime, the time to appeal the Court's judgment is tolled, pending the determination of Adrea's motion for supplemental damages.

### ***Café Manager Class Actions***

Two former Café Managers have filed separate actions alleging similar claims of entitlement to unpaid compensation for overtime. In each action, the plaintiff seeks to represent a class of allegedly similarly situated employees who performed the same position (Café Manager). Specifically, Christine Hartpence filed a complaint against Barnes & Noble, Inc. (Barnes & Noble) in Philadelphia County Court of Common Pleas on May 26, 2015 (Case No.: 160503426), alleging that she is entitled to unpaid compensation for overtime under Pennsylvania law and seeking to represent a class of allegedly similarly situated employees who performed the same position (Café Manager). On July 14, 2016, Ms. Hartpence amended her complaint to assert a purported collective action for alleged unpaid overtime compensation under the federal Fair Labor Standards Act (FLSA), by which she sought to act as a class representative for similarly situated Café Managers throughout the United States. On July 27, 2016, Barnes & Noble removed the case to the U.S. District Court of the Eastern District of Pennsylvania (Case No.: 16-4034). Ms. Hartpence then voluntarily dismissed her complaint and subsequently re-filed a similar complaint in the Philadelphia County Court of Common Pleas (Case No.: 161003213), where it is currently pending. The re-filed complaint alleges only claims of unpaid overtime under Pennsylvania law and alleges class claims under Pennsylvania law that are limited to current and former Café Managers within Pennsylvania.

On September 20, 2016, Kelly Brown filed a complaint against Barnes & Noble in the U.S. District Court for the Southern District of New York (Case No.: 16-7333) in which she also alleges that she is entitled to unpaid compensation under the FLSA and Illinois law. Ms. Brown seeks to represent a national class of all similarly situated Café Managers under the FLSA, as well as an Illinois-based class under Illinois law. On November 9, 2016, Ms. Brown filed an amended complaint to add an additional plaintiff named Tiffany Stewart, who is a former Café Manager who also alleges unpaid overtime compensation in violation of New York law and seeks to represent a class of similarly situated New York-based Café Managers under New York law. Since the commencement of the action, six former Café Managers have filed consent forms to join the action as plaintiffs.

## **24. Recent Accounting Pronouncements**

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740) – Intra-Entity Transfers of Assets Other Than Inventory* (ASU 2016-16). This standard requires that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the amendments in this standard eliminate the exception for an intra-entity transfer of an asset other than inventory. The amendments in this standard do not include new disclosure requirements; however, existing disclosure requirements might be applicable. ASU 2016-16 is effective for public companies for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15). This update clarifies the classification of certain cash receipts and cash payments in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination, insurance settlement proceeds, and distributions from certain equity method investees. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718) – Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). ASU 2016-09 includes provisions to simplify certain aspects related to the accounting for share-based awards and the related financial statement presentation. This ASU includes a requirement that the tax effect related to the settlement of share-based awards be recorded in income tax benefit or expense in the statements of earnings. This change is required to be adopted prospectively in the period of adoption. In addition, the ASU modifies the classification of certain share-based payment activities within the statements of cash flows and these changes are required to be applied retrospectively to all periods presented, or in certain cases prospectively, beginning in the period of adoption. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02), in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous Generally Accepted Accounting Principles. ASU 2016-02 requires that a lessee

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should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. ASU 2016-02 requires expanded disclosures about the nature and terms of lease agreements and is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements, but expects that it will result in a significant increase to its long-term assets and liabilities.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory* (ASU 2015-11), modifying the accounting for inventory. Under ASU 2015-11, the measurement principle for inventory will change from lower of cost or market value to lower of cost and net realizable value. ASU 2015-11 defines net realizable value as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is applicable to inventory that is accounted for under the first-in, first-out method and is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, with early adoption permitted. The majority of the Company's merchandise inventories are valued using the retail inventory method, which is outside the scope of ASU 2015-11. The remaining inventory of the Company's merchandise inventories are valued at the lower of cost or market using the average cost method, and the Company is evaluating the effect of this update on these inventory values. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In June 2015, the FASB issued ASU 2015-10, *Technical Corrections and Improvements*. The amendments in this update cover a wide range of Topics in the Codification. The amendments in this update represent changes to make minor corrections or minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. This update is the final version of Proposed Accounting Standards Update 2014-240, *Technical Corrections and Improvements*, which has been deleted. The adoption did not have a material effect on the Company's consolidated financial position or results of operations.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). ASU 2015-03 simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03. In August 2015, FASB issued ASU 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* (ASU 2015-15). ASU 2015-15 clarifies the presentation and measuring of debt issuance costs incurred in connection with line-of-credit arrangements given the lack of guidance on this topic in ASU 2015-03. For line-of-credit arrangements, an entity can continue to present debt issuance costs as an asset and amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. ASU 2015-03, as amended, is effective for annual reporting periods beginning after December 15, 2015, including interim periods within such annual reporting periods with early adoption permitted. ASU 2015-03 is to be retrospectively adopted to each prior reporting period presented. The Company adopted ASU 2015-03 in the first quarter ended July 30, 2016. The Company made a policy election to continue recording the debt issuance costs as an asset, as allowed for revolving credit agreements. As the Company only has a line-of-credit arrangement, the adoption of this ASU did not result in a change in the Company's accounting for debt issuance costs related to such line of credit and had no impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09. The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. ASU 2014-09, as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Earlier application is permitted for annual reporting periods beginning after December 15, 2016. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company has not yet selected a transition method nor has it determined the impact of adoption on its consolidated financial statements.

**Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Separation of Barnes & Noble Education, Inc.**

On February 26, 2015, Barnes & Noble announced plans for the legal and structural separation of Barnes & Noble Education, Inc. (Barnes & Noble Education or B&N Education) (formerly known as NOOK Media Inc.) from Barnes & Noble into an independent public company (the Spin-Off).

On July 14, 2015, the Barnes & Noble board of directors (the Board) approved the final distribution ratio and declared a pro rata dividend of the outstanding shares of B&N Education common stock, which resulted in the complete legal and structural separation of the two companies. The distribution was subject to the satisfaction or waiver of certain conditions as set forth in B&N Education's Registration Statement on Form S-1, which was filed with the Securities and Exchange Commission (SEC) on February 26, 2015 and was amended on April 29, 2015, June 4, 2015, June 29, 2015, July 13, 2015, July 14, 2015 and July 15, 2015.

On August 2, 2015, Barnes & Noble completed the Spin-Off of Barnes & Noble Education and distributed, on a pro rata basis, all of the shares of B&N Education common stock to the Company's stockholders of record as of July 27, 2015. These Barnes & Noble stockholders of record as of July 27, 2015 received a distribution of 0.632 shares of B&N Education common stock for each share of Barnes & Noble common stock held as of the record date. Immediately following the completion of the Spin-Off, the Company's stockholders owned 100% of the outstanding shares of common stock of B&N Education. Following the Spin-Off, B&N Education operates as an independent public company and as the parent of Barnes & Noble College, trading on New York Stock Exchange under the ticker symbol "BNED".

In connection with the separation of B&N Education, the Company and B&N Education entered into a Separation and Distribution Agreement on July 14, 2015 and several other ancillary agreements on August 2, 2015. These agreements govern the relationship between the Company and B&N Education after the separation and allocate between the Company and B&N Education various assets, liabilities, rights and obligations following the separation, including employee benefits, intellectual property, information technology, insurance and tax-related assets and liabilities. The agreements also describe the Company's future commitments to provide B&N Education with certain transition services.

This Spin-Off is expected to be a non-taxable event for Barnes & Noble and its shareholders, and Barnes & Noble's U.S. shareholders (other than those subject to special rules) generally will not recognize gain or loss as a result of the distribution of B&N Education shares.

**History of Barnes & Noble Education, Inc.**

On September 30, 2009, Barnes & Noble acquired Barnes & Noble College Booksellers, LLC (B&N College) from Leonard and Louise Riggio. From that date until October 4, 2012, B&N College was wholly owned by Barnes & Noble Booksellers, Inc. B&N Education was initially incorporated under the name NOOK Media Inc. in July 2012 to hold Barnes & Noble's B&N College and NOOK digital businesses. On October 4, 2012, Microsoft Corporation (Microsoft) acquired a 17.6% non-controlling preferred membership interest in B&N Education's subsidiary B&N Education, LLC (formerly NOOK Media LLC) (the LLC), and through B&N Education, Barnes & Noble maintained an 82.4% controlling interest of the B&N College and NOOK digital businesses.

On January 22, 2013, Pearson Education, Inc. (Pearson) acquired a 5% non-controlling preferred membership interest in the LLC, entered into a commercial agreement with the LLC relating to the B&N College business and received warrants to purchase an additional preferred membership interest in the LLC.

On December 4, 2014, B&N Education re-acquired Microsoft's interest in the LLC in exchange for cash and common stock of Barnes & Noble and the Microsoft commercial agreement was terminated effective as of such date. On December 22, 2014, B&N Education also re-acquired Pearson's interest in the LLC and certain related warrants previously issued to Pearson. In connection with these transactions, Barnes & Noble entered into contingent payment agreements with Microsoft and Pearson providing for additional payments upon the occurrence of certain events, including upon a sale of the NOOK digital business. As a result of these transactions, Barnes & Noble owned, prior to the Spin-Off, 100% of B&N Education.

On May 1, 2015, B&N Education distributed to Barnes & Noble all of the membership interests in B&N Education's NOOK digital business. As a result, B&N Education ceased to own any interest in the NOOK digital business, which remains a wholly owned subsidiary of Barnes & Noble.

**Discontinued Operations of Barnes & Noble Education, Inc.**

The Company has recognized the separation of B&N Education in accordance with Accounting Standards Codification (ASC) 205-20, *Discontinued Operations*. As such, the historical results of Barnes & Noble Education have been adjusted to include separation-related costs and exclude corporate allocations with B&N Retail and have been classified as discontinued operations.

Discontinued operations in the 39 weeks ended January 30, 2016 primarily consisted of pre-spin B&N Education results, investment banking fees (as they directly related to the Spin-Off), separation-related costs and excluded corporate allocation adjustments with B&N Retail.

**Liquidity and Capital Resources**

The primary sources of Barnes & Noble's cash are net cash flows from operating activities, funds available under its credit facility and short-term vendor financing.

*Credit Facility*

Prior to August 3, 2015, the Company was party to an amended and restated credit facility with Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and other lenders, dated as of April 29, 2011 (as amended and modified through August 3, 2015, the Prior Credit Facility), consisting of up to \$1.0 billion in aggregate commitments under a five-year asset-backed revolving credit facility, which was scheduled to expire on April 29, 2016.

On August 3, 2015, the Company and certain of its subsidiaries entered into a credit agreement (New Credit Agreement) with Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and the other lenders from time to time party thereto, under which the lenders committed to provide a five-year asset-backed revolving credit facility in an aggregate committed principal amount of up to \$700.0 million (Revolving Credit Facility). On September 30, 2016, the Company amended the New Credit Agreement to provide for a new "first-in, last-out" revolving credit facility (the FILO Credit Facility and, together with the Revolving Credit Facility, the New Credit Facility) in an aggregate principal amount of up to \$50.0 million, which supplements availability under the Revolving Credit Facility. The Company generally must draw down the FILO Credit Facility before making any borrowings under the Revolving Credit Facility.

Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC, Wells Fargo Bank, N.A. and SunTrust Robinson Humphrey, Inc. are the joint lead arrangers for the New Credit Facility. The New Credit Facility replaced the Prior Credit Facility. Proceeds from the New Credit Facility are used for general corporate purposes, including seasonal working capital needs.

The Company and certain of its subsidiaries are permitted to borrow under the New Credit Facility. The New Credit Facility is secured by substantially all of the inventory, accounts receivable and related assets of the borrowers under the New Credit Facility (collectively, the Loan Parties), but excluding the equity interests in the Company and its subsidiaries, intellectual property, equipment and certain other property. Borrowings under the New Credit Facility are limited to a specified percentage of eligible collateral. The Company has the option to request an increase in commitments under the New Credit Facility of up to \$250.0 million, subject to certain restrictions.

Interest under the Revolving Credit Facility accrues, at the election of the Company, at a LIBOR or alternate base rate, plus, in each case, an applicable interest rate margin, which is determined by reference to the level of excess availability under the Revolving Credit Facility. Through the end of the fiscal quarter during which the closing of the Revolving Credit Facility occurred, loans under the Revolving Credit Facility bore interest at LIBOR plus 1.750% per annum, in the case of LIBOR borrowings, or at the alternate base rate plus 0.750% per annum, in the alternative, and thereafter the interest rate began to fluctuate between LIBOR plus 2.000% per annum and LIBOR plus 1.500% per annum (or between the alternate base rate plus 1.000% per annum and the alternate base rate plus 0.500% per annum), based upon the average daily availability under the Revolving Credit Facility for the immediately preceding fiscal quarter. Interest under the FILO Credit Facility accrues, at the election of the Company, at a LIBOR or alternate base rate, plus, in each case, an applicable interest rate margin, which is also determined by reference to the level of excess availability under the Revolving Credit Facility. Loans under the FILO Credit Facility bear interest at 1.000% per annum more than loans under the Revolving Credit Facility.

The New Credit Agreement contains customary negative covenants, which limit the Company's ability to incur additional indebtedness, create liens, make investments, make restricted payments or specified payments and merge or acquire assets, among other things. In addition, if excess availability under the New Credit Facility were to fall below certain specified levels, certain additional covenants (including fixed charge coverage ratio requirements) would be triggered, and the lenders would assume dominion and control over the Loan Parties' cash.

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The New Credit Agreement contains customary events of default, including payment defaults, material breaches of representations and warranties, covenant defaults, default on other material indebtedness, customary ERISA events of default, bankruptcy and insolvency, material judgments, invalidity of liens on collateral, change of control or cessation of business. The New Credit Agreement also contains customary affirmative covenants and representations and warranties.

The Company wrote off \$0.5 million of deferred financing fees related to the Prior Credit Facility during the second quarter of fiscal 2016 and the remaining unamortized deferred financing fees of \$3.5 million were deferred and are being amortized over the five-year term of the New Credit Facility. The Company also incurred \$5.7 million of fees to secure the New Credit Facility, which are being amortized over the five-year term accordingly. During the second quarter of fiscal 2017, the Company incurred \$0.5 million of fees to secure the FILO Credit Facility, which are being amortized over the same term as the New Credit Facility.

The Company had \$18.2 million of outstanding debt and no outstanding debt under the New Credit Facility as of January 28, 2017 and January 30, 2016, respectively. The Company had \$38.9 million and \$47.9 million of outstanding letters of credit under its New Credit Facility as of January 28, 2017 and January 30, 2016, respectively.

### *Cash Flows*

The Company's cash and cash equivalents were \$11.6 million as of January 28, 2017, compared with \$63.6 million as of January 30, 2016. The decrease in cash and cash equivalents of \$51.9 million versus the prior year period was due to changes in working capital and cash flows as outlined below.

Net cash flows provided by operating activities for the 39 weeks ended January 28, 2017 were \$158.4 million, as compared to net cash flows provided by operating activities of \$245.2 million for the 39 weeks ended January 30, 2016. The unfavorable year-over-year comparison was primarily attributable to changes in working capital.

Net cash flows used in investing activities for the 39 weeks ended January 28, 2017 were \$73.7 million, as compared to net cash flows used in investing activities of \$69.8 million for the 39 weeks ended January 30, 2016. The Company's current year investing activities primarily consisted of capital expenditures for the maintenance of existing stores, merchandising initiatives, new store construction and enhancements to systems and the website.

Net cash flows used in financing activities for the 39 weeks ended January 28, 2017 were \$87.0 million, as compared to net cash flows used in financing activities of \$72.0 million for the 39 weeks ended January 30, 2016. The Company's financing activities during the 39 weeks ended January 28, 2017 consisted primarily of net payments on the credit facility, common dividends and share repurchases. Financing activities during the 39 weeks ended January 30, 2016 consisted primarily of common and preferred dividends, fees incurred to enter into the New Credit Facility, share repurchases and other financing activities.

Since July 2015, the Company has returned \$129.0 million in cash to its shareholders through share repurchases and dividends.

Additional year-over-year balance sheet changes include the following:

- Receivables, net increased \$1.1 million, or 1.5%, to \$70.4 million as of January 28, 2017, compared to \$69.4 million as of January 30, 2016, as outstanding eBook settlement amounts were partially offset by the lower sales volume.
- Merchandise inventories, net decreased \$33.6 million, or 3.2%, to \$1.010 billion as of January 28, 2017, compared to \$1.044 billion as of January 30, 2016. Retail inventories decreased \$27.3 million, or 2.7%, compared to the prior year. NOOK inventories decreased \$6.3 million, or 31.0%, on lower planned sales volume.
- Prepaid expenses and other current assets decreased \$4.5 million, or 6.8%, to \$62.2 million as of January 28, 2017, compared to \$66.7 million as of January 30, 2016 on lower maintenance contracts.
- Property and equipment, net decreased \$25.7 million, or 8.4%, to \$281.5 million as of January 28, 2017, compared to \$307.2 million as of January 30, 2016, as depreciation outpaced capital expenditures.
- Intangible assets, net decreased \$0.7 million, or 0.2%, to \$310.4 million as of January 28, 2017, compared to \$311.1 million as of January 30, 2016, on additional amortization.
- Other non-current assets decreased \$0.4 million, or 3.1%, to \$11.3 million as of January 28, 2017, compared to \$11.6 million as of January 30, 2016.
- Accounts payable decreased \$76.2 million, or 13.2%, to \$500.8 million as of January 28, 2017, compared to \$577.0 million as of January 30, 2016. Accounts payable represented 49.6% and 55.3% of merchandise inventories as of January 28, 2017 and January 30, 2016, respectively. This ratio is subject to changes in product mix and the timing of purchases, payments and returns.

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- Accrued liabilities decreased \$15.2 million, or 4.5%, to \$319.1 million as of January 28, 2017, compared to \$334.3 million as of January 30, 2016. Accrued liabilities include the eBook settlement, accrued taxes, deferred income, compensation, occupancy related, legal and other selling and administrative miscellaneous accruals.
- Gift card liabilities decreased \$0.1 million, or 0.0%, to \$384.8 million as of January 28, 2017, compared to \$384.9 million as of January 30, 2016. The Company estimates the portion of the gift card liability for which the likelihood of redemption is remote based upon the Company's historical redemption patterns. The Company recognized gift card breakage of \$20.8 million and \$13.5 million during the 13 weeks ended January 28, 2017 and January 30, 2016, respectively, and \$30.6 million and \$24.1 million during the 39 weeks ended January 28, 2017 and January 30, 2016, respectively. Gift card breakage increased over last year as redemptions continue to run lower than historical patterns. Additional breakage may be required if gift card redemptions continue to run lower than historical patterns.
- Deferred taxes increased \$38.0 million, or 233.3%, to \$54.3 million as of January 28, 2017, compared to \$16.3 million as of January 30, 2016.
- Other long-term liabilities decreased \$33.5 million, or 24.1%, to \$105.2 million as of January 28, 2017, compared to \$138.7 million as of January 30, 2016, due to lower tax reserves and lower deferred rent.

The Company has arrangements with third-party manufacturers to produce certain NOOK<sup>®</sup> products. These manufacturers procure and assemble unfinished parts and components from third-party suppliers based on forecasts provided by the Company. Given production lead times, commitments are generally made far in advance of finished product delivery. Based on current purchase commitments and product development plans, the Company did not record any provision for purchase commitments. Future charges may be required based on changes in forecasted sales or strategic direction.

### *EBook Settlement*

The Company provided credits to eligible customers resulting from the settlement reached with Apple Inc. (Apple) in an antitrust lawsuit filed by various State Attorneys General and private class plaintiffs regarding the price of digital books. The Company's customers were entitled to \$95.7 million in total credits as a result of the settlement, which is funded by Apple. If a customer's credit is not used to make a purchase within one year, the entire credit will expire. The Company estimated total activations of \$59.3 million through June 2017, which are recorded as a liability to its customers to the extent they have not yet been activated and as a receivable from Apple settlement fund to the extent they have not yet been reimbursed. As of January 28, 2017, the Company's customers had activated \$56.0 million in credits, of which \$48.2 million were redeemed. Total receivables from the Apple settlement fund were \$5.1 million as of January 28, 2017.

### *Samsung Agreement*

On June 4, 2014, NOOK Digital, LLC (NOOK Digital) (formerly NOOK Media Sub and barnesandnoble.com llc), a wholly owned subsidiary of B&N Education as of such date and a subsidiary of Barnes & Noble, entered into a commercial agreement (Agreement) with Samsung Electronics America, Inc. (Samsung) relating to tablets.

Pursuant to the Agreement, NOOK Digital, after good faith consultations with Samsung and subject to Samsung's agreement, selected Samsung tablet devices under development to be customized and co-branded by NOOK Digital. Such devices are produced by Samsung. The co-branded NOOK<sup>®</sup> tablet devices are sold by NOOK Digital through Barnes & Noble retail stores, [www.barnesandnoble.com](http://www.barnesandnoble.com) and [www.nook.com](http://www.nook.com).

Under the Agreement, NOOK Digital committed to purchase a minimum of 1,000,000 NOOK<sup>®</sup> -Samsung co-branded devices from Samsung within 12 months after the launch of the initial co-branded device, which occurred on August 20, 2014. The 12-month period was automatically extended by three months due to the quantity of sales of such co-branded devices through December 31, 2014, and the period was further extended until June 30, 2016 by an amendment executed by the parties on March 7, 2015.

NOOK Digital and Samsung have agreed to coordinate customer service for the co-branded NOOK<sup>®</sup> devices and have both agreed to a license of intellectual property to promote and market the devices. Additionally, Samsung has agreed to fund a marketing fund for the co-branded NOOK<sup>®</sup> devices at the initial launch and for the duration of the Agreement.

The Agreement had a two-year term, with certain termination rights, including termination (i) by NOOK Digital for a Samsung material default; (ii) by Samsung for a NOOK Digital material default; (iii) by NOOK Digital if Samsung fails to meet its shipping and delivery obligations in any material respect on a timely basis; and (iv) by either party upon insolvency or bankruptcy of the other party.

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On May 17, 2016, NOOK Digital and Samsung amended the Agreement, pursuant to which NOOK Digital agreed to a minimum purchase commitment during the first 12 months after launch of any co-branded NOOK<sup>®</sup> tablet device of total devices with a total retail value equal to \$10.0 million. The amended minimum purchase commitment replaces all prior purchase commitments contained in the Agreement by NOOK Digital and Samsung.

*Series J Preferred Stock*

On August 18, 2011, the Company entered into an investment agreement between the Company and Liberty GIC, Inc. (Liberty), pursuant to which the Company issued and sold to Liberty, and Liberty purchased, 204,000 shares of the Company's Series J Preferred Stock, par value \$0.001 per share (Preferred Stock), for an aggregate purchase price of \$204.0 million in a private placement exempt from the registration requirements of the 1933 Act. The shares of Preferred Stock were convertible, at the option of the holders, into shares of Common Stock representing 16.6% of the Common Stock outstanding as of August 29, 2011 (after giving pro forma effect to the issuance of the Preferred Stock) based on the initial conversion rate. The initial conversion rate reflected an initial conversion price of \$17.00 and was subject to adjustment in certain circumstances. The initial dividend rate for the Preferred Stock was equal to 7.75% per annum of the initial liquidation preference of the Preferred Stock paid quarterly and subject to adjustment in certain circumstances.

On April 8, 2014, Liberty sold the majority of its shares to qualified institutional buyers in reliance on Rule 144A under the Securities Act and had retained an approximate 10% stake of its initial investment. As a result, Liberty no longer had the right to elect two preferred stock directors to the Company's Board. Additionally, the consent rights and pre-emptive rights, to which Liberty was previously entitled, ceased to apply.

On June 5, 2015, the Company entered into conversion agreements with five beneficial owners (Series J Holders) of its Preferred Stock, pursuant to which each of the Series J Holders had agreed to convert (Conversion) shares of Preferred Stock it beneficially owned into shares of the Company's common stock, par value \$0.001 per share (Company Common Stock), and additionally received a cash payment from the Company in connection with the Conversion.

On July 9, 2015, the Company completed the Conversion. Pursuant to the terms of the Conversion Agreements, the Series J Holders converted an aggregate of 103,995 shares of Preferred Stock into 6,117,342 shares of Company Common Stock, and made an aggregate cash payment to the Series J Holders of \$3.7 million plus cash in lieu of fractional shares in connection with the Conversion.

On July 10, 2015, the Company gave notice of its exercise of the right to force conversion of all outstanding shares of its Senior Convertible Redeemable Series J Preferred Stock into Company Common Stock pursuant to Section 9 of the Certificate of Designations, Preferences and Relative Participating, Optional and Other Special Rights and Qualifications, Limitations and Restrictions of Series J Preferred Stock, dated as of August 18, 2011 (the Forced Conversion). The effective date of the Forced Conversion was July 24, 2015. On the date of the Forced Conversion, each share of Series J Preferred Stock was automatically converted into 59.8727 shares of Company Common Stock, which included shares of Company Common Stock reflecting accrued and unpaid dividends on Series J Preferred Stock. Each holder of Series J Preferred Stock received whole shares of Company Common Stock and a cash amount in lieu of fractional shares of Company Common Stock.

As a result of the transactions described above, all shares of Series J Preferred Stock were retired by the Company and are no longer outstanding.

Based upon the Company's current operating levels and capital expenditures for fiscal 2017, management believes cash and cash equivalents on hand, funds available under its credit facility and short-term vendor financing will be sufficient to meet the Company's normal working capital and debt service requirements for at least the next 12 months. The Company regularly evaluates its capital structure and conditions in the financing markets to ensure it maintains adequate flexibility to successfully execute its business plan.

**Segments**

The Company identifies its operating segments based on the way the business is managed (focusing on the financial information distributed) and the manner in which the chief operating decision maker interacts with other members of management and makes decisions on the allocation of resources. The Company's two operating segments are B&N Retail and NOOK.

***Seasonality***

The B&N Retail business, like that of many retailers, is seasonal, with the major portion of sales and operating income realized during its third fiscal quarter, which includes the holiday selling season.

The NOOK business, like that of many technology companies, is impacted by the launch of new products and the promotional efforts to support those new products, as well as the traditional retail holiday selling seasonality.

***Business Overview***

In recent years, Barnes & Noble has experienced declining sales trends due to lower comparable store sales, decreased online and digital sales, and store closures. The Company also experienced expense deleverage as a result of the declining sales trends. To combat these trends, the Company has implemented a number of merchandising initiatives to improve traffic and conversion. These initiatives include increasing the size and scope of its in-store events, including nationwide campaigns, such as Get Pop-Cultured and Maker Faire that increase traffic and sales and further reinforce Barnes & Noble as a community center. The Company is also improving the navigation and discovery of titles that takes place in its stores to make books easier to find amongst its vast selection, which it believes will improve performance.

Since launching its new website in June 2015, the Company has implemented a number of website fixes to address post-launch issues that reduced website traffic and conversion, as well as to improve the overall user experience. BN.com is an important component of the Company's omni-channel strategy, and it believes that in the long term, the new platform will enable it to be more competitive in the marketplace.

Through its omni-channel offering, the Company believes that it is well positioned to improve results and is focused on executing four key objectives to achieve success, including: significantly reducing NOOK losses; growing online and bookstore sales; reducing B&N Retail's cost structure; and growing its Membership program.

The Company has taken a number of actions that will help further reduce NOOK losses, including the exit of its Apps and Video businesses, as well as the exit of the U.K. eBook market. Additionally, the Company outsourced certain NOOK functions, including cloud management and development support for NOOK® software, which enabled it to close its Santa Clara, CA and Taipei offices. The Company continues to bring new devices to market, including the new NOOK Tablet 7", along with co-branded devices through its partnership with Samsung.

To grow online and bookstore sales, the Company will utilize the strong Barnes & Noble brand and retail footprint to attract customers to its omni-channel offerings. The Company has created individual bookstore social media accounts, which enable its booksellers to communicate directly with customers at the local level to inform them of all the great events and merchandise available at their local Barnes & Noble stores. The Company is also focused on increasing traffic through store events, and conversion through improved navigation and discovery throughout the store, including a customer friendly and more intuitive organization of books and improved signage for easier browsing within and across sections.

To reduce B&N Retail's cost structure, the Company plans to increase productivity, streamline back office operations and eliminate non-productive spend.

The Company's Membership program provides the Company with valuable data and insights into its customer base, enabling the Company to have deeper relationships and more meaningful communications with its Members. The Company plans to leverage its unique assets to increase the appeal of the program and the loyalty of its Members.

**Results of Operations**

The following tables summarize the Company's results of operations for the 13 and 39 weeks ended January 28, 2017 compared with the 13 and 39 weeks ended January 30, 2016.

*Sales*

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 28, 2017	% of Total	January 30, 2016	% of Total	January 28, 2017	% of Total	January 30, 2016	% of Total
B&N Retail	\$1,276,039	98.1%	\$1,378,887	97.5%	\$2,988,471	97.2%	\$3,178,590	96.7%
NOOK	38,434	3.0%	51,737	3.7%	114,524	3.7%	149,568	4.6%
Elimination	(13,565)	(1.0)%	(16,677)	(1.2)%	(29,657)	(1.0)%	(40,998)	(1.2)%
Total Sales	<u>\$1,300,908</u>	<u>100.0%</u>	<u>\$1,413,947</u>	<u>100.0%</u>	<u>\$3,073,338</u>	<u>100.0%</u>	<u>\$3,287,160</u>	<u>100.0%</u>

During the 13 weeks ended January 28, 2017, the Company's sales decreased \$113.0 million, or 8.0%, to \$1.301 billion from \$1.414 billion during the 13 weeks ended January 30, 2016. The changes by segment are as follows:

- B&N Retail sales for the 13 weeks ended January 28, 2017 decreased \$102.8 million, or 7.5%, to \$1.276 billion from \$1.379 billion during the same period one year ago, and accounted for 98.1% of total Company sales. Comparable store sales decreased \$97.5 million, or 8.3%, as compared to the prior year. Closed stores decreased sales by \$15.8 million. B&N Retail also includes third-party sales of Sterling Publishing Co., Inc., which decreased by \$4.0 million, or 31.3%, versus the prior year on lower coloring book sales. New stores increased sales by \$4.0 million during the quarter. Online sales increased \$2.5 million, or 2.2%, versus the prior year period on benefits from the eBook settlement, site improvements and increased promotional activity. Gift card breakage also increased \$7.3 million as redemptions continue to run lower than historical patterns.  
  
Of the \$97.5 million decrease in comparable store sales, core comparable store sales, which exclude sales of NOOK® products, decreased \$91.0 million, or 7.8%, as compared to the prior year due primarily to lower traffic, as well as the decline in coloring books and artist supplies, the comparison to last year's best-selling album by Adele and the continued challenging retail environment. Book categories decreased sales by \$56.5 million, or 8.0%, while non-book core categories decreased sales by \$34.5 million, or 7.7%, for the quarter. Comparable sales of NOOK® products at B&N Retail stores decreased \$6.5 million, or 32.8%, primarily on lower average selling prices and lower device unit volume.
- NOOK sales decreased \$13.3 million, or 25.7%, to \$38.4 million during the 13 weeks ended January 28, 2017 from \$51.7 million during the 13 weeks ended January 30, 2016, and accounted for 3.0% of total Company sales. Device and accessories sales decreased \$6.9 million, or 33.1%, primarily on lower average selling prices. Digital content sales decreased \$6.4 million, or 20.8%, compared to prior year on lower unit sales, partially offset by higher average selling prices. Current year content volume benefited from the eBook settlement.
- Elimination sales, which represent sales from NOOK to B&N Retail on a sell-through basis, decreased \$3.1 million, or 18.7%, versus the prior year. NOOK sales, net of elimination, accounted for 1.9% of total Company sales.

During the 13 weeks ended January 28, 2017, B&N Retail had three store openings and seven store closings.

During the 39 weeks ended January 28, 2017, the Company's sales decreased \$213.8 million, or 6.5%, to \$3.073 billion from \$3.287 billion during the 39 weeks ended January 30, 2016. The changes by segment are as follows:

- B&N Retail sales for the 39 weeks ended January 28, 2017 decreased \$190.1 million, or 6.0%, to \$2.988 billion from \$3.179 billion during the same period one year ago, and accounted for 97.2% of total Company sales. Comparable store sales decreased \$169.8 million, or 6.2%, as compared to the prior year. Closed stores decreased sales by \$37.8 million. B&N Retail also includes third-party sales of Sterling Publishing Co., Inc., which decreased by \$7.2 million, or 20.2%, versus the prior year on lower coloring book sales. New stores increased sales by \$4.0 million. Online sales increased \$9.1 million, or 3.8%, versus the prior year period on benefits from the eBook settlement, site improvements and increased promotional activity. Gift card breakage increased \$6.5 million as redemptions continue to run lower than historical patterns.

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Of the \$169.8 million decrease in comparable store sales, core comparable store sales, which exclude sales of NOOK<sup>®</sup> products, decreased \$152.4 million, or 5.7%, as compared to the prior year due in large part to lower traffic, comparisons to last year's coloring book and artist supplies phenomenon, and the challenging retail environment. Book categories decreased sales by \$109.5 million, or 6.3%, while non-book core categories decreased sales by \$42.9 million, or 4.6%. Comparable sales of NOOK<sup>®</sup> products at B&N Retail stores decreased \$17.4 million, or 36.7%, primarily on lower device unit volume and lower average selling prices.

- NOOK sales decreased \$35.0 million, or 23.4%, to \$114.5 million during the 39 weeks ended January 28, 2017 from \$149.6 million during the 39 weeks ended January 30, 2016, and accounted for 3.7% of total Company sales. Digital content sales decreased \$17.9 million, or 18.0%, compared to prior year on lower unit sales, partially offset by higher average selling prices. Current year content volume benefited from the eBook settlement. Device and accessories sales decreased \$17.1 million, or 34.5%, primarily on lower unit sales and lower average selling prices.
- Elimination sales, which represent sales from NOOK to B&N Retail on a sell-through basis, decreased \$11.3 million, or 27.7%, versus the prior year. NOOK sales, net of elimination, accounted for 2.8% of total Company sales.

During the 39 weeks ended January 28, 2017, B&N Retail had three store openings and nine store closings.

*Cost of Sales and Occupancy*

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 28, 2017	% of Sales	January 30, 2016	% of Sales	January 28, 2017	% of Sales	January 30, 2016	% of Sales
B&N Retail	\$ 853,788	66.9%	\$ 904,292	65.6%	\$2,068,998	69.2%	\$2,168,992	68.2%
NOOK	23,884	62.1%	34,677	67.0%	64,282	56.1%	97,627	65.3%
Elimination	(13,565)	(35.3)%	(16,677)	(32.2)%	(29,657)	(25.9)%	(40,998)	(27.4)%
Total Cost of Sales and Occupancy	<u>\$ 864,107</u>	<u>66.4%</u>	<u>\$ 922,292</u>	<u>65.2%</u>	<u>\$2,103,623</u>	<u>68.4%</u>	<u>\$2,225,621</u>	<u>67.7%</u>

The Company's cost of sales and occupancy includes costs such as merchandise costs, distribution center costs (including payroll, freight, supplies, depreciation and other operating expenses), rental expense, common area maintenance and real estate taxes, partially offset by landlord tenant allowances amortized over the life of the lease.

During the 13 weeks ended January 28, 2017, cost of sales and occupancy decreased \$58.2 million, or 6.3%, to \$864.1 million from \$922.3 million during the 13 weeks ended January 30, 2016. Cost of sales and occupancy increased as a percentage of sales to 66.4% from 65.2% during the same period one year ago. The changes by segment are as follows:

- B&N Retail cost of sales and occupancy increased as a percentage of sales to 66.9% from 65.6%, or 130 basis points, during the same period one year ago primarily on higher markdowns (85 basis points) to clear non-returnable merchandise resulting from the holiday sales shortfall, and occupancy deleverage (60 basis points). The remaining variance was comprised of product mix, sales deleverage and general timing differences.
- NOOK cost of sales and occupancy decreased as a percentage of sales to 62.1% from 67.0% during the same period one year ago. This decrease was primarily due to sales mix and improved device margins.

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During the 39 weeks ended January 28, 2017, cost of sales and occupancy decreased \$122.0 million, or 5.5%, to \$2.104 billion from \$2.226 billion during the 39 weeks ended January 30, 2016. Cost of sales and occupancy increased as a percentage of sales to 68.4% from 67.7% during the same period one year ago. The changes by segment are as follows:

- B&N Retail cost of sales and occupancy increased as a percentage of sales to 69.2% from 68.2%, or 100 basis points, during the same period one year ago primarily on higher markdowns (80 basis points) from promotional activity, including *Harry Potter and the Cursed Child*, as well as markdowns to clear non-returnable merchandise resulting from the holiday sales shortfall, occupancy deleverage (55 basis points) and lower eCommerce margins on higher promotional activity to increase site traffic (20 basis points). The remaining variance was attributable to product mix, sales deleverage and general timing differences.
- NOOK cost of sales and occupancy decreased as a percentage of sales to 56.1% from 65.3% during the same period one year ago. This decrease was primarily due to sales mix, improved device margins and the favorable channel partner settlement.

*Gross Profit*

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 28, 2017	% of Sales	January 30, 2016	% of Sales	January 28, 2017	% of Sales	January 30, 2016	% of Sales
B&N Retail	\$ 422,251	33.1%	\$ 474,595	34.4%	\$ 919,473	30.8%	\$ 1,009,598	31.8%
NOOK	14,550	58.5%	17,060	48.7%	50,242	59.2%	51,941	47.8%
<b>Total Gross Profit</b>	<b>\$ 436,801</b>	<b>33.6%</b>	<b>\$ 491,655</b>	<b>34.8%</b>	<b>\$ 969,715</b>	<b>31.6%</b>	<b>\$ 1,061,539</b>	<b>32.3%</b>

The Company's consolidated gross profit decreased \$54.9 million, or 11.2%, to \$436.8 million during the 13 weeks ended January 28, 2017 from \$491.7 million during the 13 weeks ended January 30, 2016. This decrease was due to the matters discussed above.

The Company's consolidated gross profit decreased \$91.8 million, or 8.7%, to \$969.7 million during the 39 weeks ended January 28, 2017 from \$1.062 billion during the 39 weeks ended January 30, 2016. This decrease was due to the matters discussed above.

*Selling and Administrative Expenses*

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 28, 2017	% of Sales	January 30, 2016	% of Sales	January 28, 2017	% of Sales	January 30, 2016	% of Sales
B&N Retail	\$ 262,024	20.5%	\$ 294,438	21.4%	\$ 738,176	24.7%	\$ 783,353	24.6%
NOOK	16,938	68.1%	28,214	80.5%	63,323	74.6%	101,710	93.7%
<b>Total Selling and Administrative Expenses</b>	<b>\$ 278,962</b>	<b>21.4%</b>	<b>\$ 322,652</b>	<b>22.8%</b>	<b>\$ 801,499</b>	<b>26.1%</b>	<b>\$ 885,063</b>	<b>26.9%</b>

Selling and administrative expenses decreased \$43.7 million, or 13.5%, to \$279.0 million during the 13 weeks ended January 28, 2017 from \$322.7 million during the 13 weeks ended January 30, 2016. Selling and administrative expenses decreased as a percentage of sales to 21.4% from 22.8% as compared to the same period one year ago. The changes by segment are as follows:

- B&N Retail selling and administrative expenses decreased \$32.4 million as compared to prior year, or 80 basis points as a percentage of sales to 20.5% from 21.4% for the quarter. This variance was primarily due to lower holiday advertising (130 basis points), lower website expenses (35 basis points) due to prior year investments to stabilize the site and improve traffic and customer experience, and a prior year impairment charge on a publishing contract of \$3.8 million (30 basis points), partially offset by higher store payroll (70 basis points on store sales) on sales deleverage and wage increases, store opening expenses (20 basis points) and higher severance costs (15 basis points). The remaining variance was attributable to sales deleverage and the general timing of expenses.
- NOOK selling and administrative expenses decreased \$11.3 million as compared to prior year, decreasing as a percentage of sales to 68.1% from 80.5% for the quarter. The dollar decrease was primarily due to continued cost rationalization efforts, including lower compensation, as well as lower variable costs on the sales decline.

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Selling and administrative expenses decreased \$83.6 million, or 9.4%, to \$801.5 million during the 39 weeks ended January 28, 2017 from \$885.1 million during the 39 weeks ended January 30, 2016. Selling and administrative expenses decreased as a percentage of sales to 26.1% from 26.9% as compared to the same period one year ago. The changes by segment are as follows:

- B&N Retail selling and administrative expenses decreased \$45.2 million as compared to prior year, increasing 10 basis points as a percentage of sales to 24.7% from 24.6% for the year. Unfavorable variances to the prior year include higher store payroll (55 basis points on store sales) as sales leverage and wage increases offset productivity gains, higher non-CEO severance costs (35 basis points) primarily resulting from a cost reduction program, increased eCommerce advertising costs (10 basis points) to promote site traffic and a severance charge (net of reversal of expense relating to equity awards) of \$3.0 million resulting from the current year CEO departure (10 basis points). Favorable variances to the prior year include lower holiday advertising (55 basis points) and lower pension expense (10 basis points) on the prior year plan termination. The prior year also included a net CEO separation-related severance charge of \$10.5 million (35 basis points). The remaining variance was attributable to the general timing of expenses and additional expense leverage.
- NOOK selling and administrative expenses decreased \$38.4 million as compared to the prior year, decreasing as a percentage of sales to 74.6% from 93.7% during the same period a year ago. Current year expenses include severance and transitional costs of \$8.2 million related to the outsourcing of certain services and the closure of its California and Taiwan offices. Excluding these costs, the decrease in dollars was primarily attributable to continued cost rationalization efforts, including lower compensation, as well as lower variable costs on the sales decline.

*Depreciation and Amortization*

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 28, 2017	% of Sales	January 30, 2016	% of Sales	January 28, 2017	% of Sales	January 30, 2016	% of Sales
B&N Retail	\$ 25,236	2.0%	\$ 26,853	1.9%	\$ 74,756	2.5%	\$ 78,079	2.5%
NOOK	3,816	15.3%	8,294	23.7%	15,327	18.1%	25,785	23.7%
<b>Total Depreciation and Amortization</b>	<b>\$ 29,052</b>	<b>2.2%</b>	<b>\$ 35,147</b>	<b>2.5%</b>	<b>\$ 90,083</b>	<b>2.9%</b>	<b>\$ 103,864</b>	<b>3.2%</b>

During the 13 weeks ended January 28, 2017, depreciation and amortization decreased \$6.1 million, or 17.3%, to \$29.1 million from \$35.1 million during the same period one year ago. This decrease was primarily attributable to fully depreciated assets, partially offset by additional capital expenditures.

During the 39 weeks ended January 28, 2017, depreciation and amortization decreased \$13.8 million, or 13.3%, to \$90.1 million from \$103.9 million during the same period one year ago. This decrease was primarily attributable to fully depreciated assets, partially offset by additional capital expenditures.

*Operating Income (Loss)*

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 28, 2017	% of Sales	January 30, 2016	% of Sales	January 28, 2017	% of Sales	January 30, 2016	% of Sales
B&N Retail	\$ 134,991	10.6%	\$ 153,304	11.1%	\$ 106,541	3.6%	\$ 148,166	4.7%
NOOK	(6,204)	(24.9)%	(19,448)	(55.5)%	(28,408)	(33.5)%	(75,554)	(69.6)%
<b>Total Operating Income</b>	<b>\$ 128,787</b>	<b>9.9%</b>	<b>\$ 133,856</b>	<b>9.5%</b>	<b>\$ 78,133</b>	<b>2.5%</b>	<b>\$ 72,612</b>	<b>2.2%</b>

The Company's consolidated operating income decreased \$5.1 million, or 3.8%, to an operating income of \$128.8 million during the 13 weeks ended January 28, 2017 from an operating income of \$133.9 million during the 13 weeks ended January 30, 2016. This change was due to the matters discussed above.

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The Company's consolidated operating income increased \$5.5 million, or 7.6%, to an operating income of \$78.1 million during the 39 weeks ended January 28, 2017 from an operating income of \$72.6 million during the 39 weeks ended January 30, 2016. This change was due to the matters discussed above.

*Interest Expense, Net and Amortization of Deferred Financing Fees*

<i>Dollars in thousands</i>	13 weeks ended			39 weeks ended		
	January 28, 2017	January 30, 2016	% of Change	January 28, 2017	January 30, 2016	% of Change
Interest Expense, Net and Amortization of Deferred Financing Fees	\$ 2,076	\$ 1,976	5.1%	\$ 5,666	\$ 7,233	(21.7)%

Net interest expense and amortization of deferred financing fees increased \$0.1 million, or 5.1%, to \$2.1 million during the 13 weeks ended January 28, 2017 from \$2.0 million from the same period one year ago.

Net interest expense and amortization of deferred financing fees decreased \$1.6 million, or 21.7%, to \$5.7 million during the 39 weeks ended January 28, 2017 from \$7.2 million from the same period one year ago. This decrease was primarily due to lower deferred financing costs in conjunction with refinancing of the credit facility in August 2015.

*Income Taxes*

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 28, 2017	Effective Rate	January 30, 2016	Effective Rate	January 28, 2017	Effective Rate	January 30, 2016	Effective Rate
Income Taxes	\$ 56,435	44.5%	\$ 51,618	39.1%	\$ 37,016	51.1%	\$ 20,071	30.7%

The Company recorded an income tax provision of \$56.4 million during the 13 weeks ended January 28, 2017 compared with an income tax provision of \$51.6 million during the 13 weeks ended January 30, 2016. The Company's effective tax rate was 44.5% and 39.1% for the 13 weeks ended January 28, 2017 and January 30, 2016, respectively. The Company's effective tax rate for the 13 weeks ended January 28, 2017 and January 30, 2016 differs from the statutory rate due to the impact of permanent items such as meals and entertainment, non-deductible executive compensation, tax credits, changes in uncertain tax positions and the impact of return to provision adjustments and state tax provision, net of federal benefit. The Company continues to maintain a valuation allowance against certain state items.

The Company recorded an income tax provision of \$37.0 million during the 39 weeks ended January 28, 2017 compared with an income tax provision of \$20.1 million during the 39 weeks ended January 30, 2016. The Company's effective tax rate was 51.1% and 30.7% for the 39 weeks ended January 28, 2017 and January 30, 2016, respectively. The Company's effective tax rate for the 39 weeks ended January 28, 2017 and January 30, 2016 differs from the statutory rate due to the impact of permanent items such as meals and entertainment, non-deductible executive compensation, tax credits, changes in uncertain tax positions and the impact of return to provision adjustments and state tax provision, net of federal benefit. The Company continues to maintain a valuation allowance against certain state items.

*Net Income from Continuing Operations*

<i>Dollars in thousands</i>	13 weeks ended		39 weeks ended	
	January 28, 2017	January 30, 2016	January 28, 2017	January 30, 2016
Net Income from Continuing Operations	\$ 70,276	\$ 80,262	\$ 35,451	\$ 45,308

As a result of the factors discussed above, the Company reported consolidated net income from continuing operations of \$70.3 million during the 13 weeks ended January 28, 2017, compared with consolidated net income from continuing operations of \$80.3 million during the 13 weeks ended January 30, 2016.

As a result of the factors discussed above, the Company reported consolidated net income from continuing operations of \$35.5 million during the 39 weeks ended January 28, 2017, compared with consolidated net income from continuing operations of \$45.3 million during the 39 weeks ended January 30, 2016.

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*Net Loss from Discontinued Operations*

<i>Dollars in thousands</i>	13 weeks ended		39 weeks ended	
	January 28, 2017	January 30, 2016	January 28, 2017	January 30, 2016
Net Loss from Discontinued Operations	\$ —	\$ —	\$ —	\$ (39,146)

The Company has recognized the separation of B&N Education in accordance with ASC 205-20, *Discontinued Operations*. As such, the historical results of Barnes & Noble Education have been classified as discontinued operations.

Discontinued operations in the 39 weeks ended January 30, 2016 primarily consisted of pre-spin B&N Education results, investment banking fees (as they directly related to the Spin-Off) and separation-related costs, and excluded corporate allocation adjustments with B&N Retail.

*Net Income*

<i>Dollars in thousands</i>	13 weeks ended		39 weeks ended	
	January 28, 2017	January 30, 2016	January 28, 2017	January 30, 2016
Net Income	\$ 70,276	\$ 80,262	\$ 35,451	\$ 6,162

As a result of the factors discussed above, the Company reported consolidated net income of \$70.3 million during the 13 weeks ended January 28, 2017, compared with consolidated net income of \$80.3 million during the 13 weeks ended January 30, 2016.

As a result of the factors discussed above, the Company reported consolidated net income of \$35.5 million during the 39 weeks ended January 28, 2017, compared with consolidated net income of \$6.2 million during the 39 weeks ended January 30, 2016.

**Critical Accounting Policies**

During the third quarter of fiscal 2017, there were no changes in the Company's policies regarding the use of estimates and other critical accounting policies. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," found in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2016 for additional information relating to the Company's use of estimates and other critical accounting policies.

**Disclosure Regarding Forward-Looking Statements**

This quarterly report on Form 10-Q contains certain forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended) and information relating to Barnes & Noble that are based on the beliefs of the management of Barnes & Noble as well as assumptions made by and information currently available to the management of Barnes & Noble. When used in this communication, the words "anticipate," "believe," "estimate," "expect," "intend," "plan," "will," "forecasts," "projections," and similar expressions, as they relate to Barnes & Noble or the management of Barnes & Noble, identify forward-looking statements.

Such statements reflect the current views of Barnes & Noble with respect to future events, the outcome of which is subject to certain risks, including, among others, the general economic environment and consumer spending patterns, decreased consumer demand for Barnes & Noble's products, low growth or declining sales and net income due to various factors, including store closings, higher-than-anticipated or increasing costs, including with respect to store closings, relocation, occupancy (including in connection with lease renewals) and labor costs, the effects of competition, the risk of insufficient access to financing to implement future business initiatives, risks associated with data privacy and information security, risks associated with Barnes & Noble's supply chain, including possible delays and disruptions and increases in shipping rates, various risks associated with the digital business, including the possible loss of customers, declines in digital content sales, risks and costs associated with ongoing efforts to rationalize the digital business and the digital business not being able to perform its obligations under the Samsung commercial agreement and the consequences thereof, the risk that financial and operational forecasts and projections are not achieved, the performance of Barnes & Noble's initiatives including but not limited to its new store concept and eCommerce initiatives, unanticipated adverse litigation results or effects, potential infringement of Barnes & Noble's intellectual property by third parties or by Barnes & Noble of the intellectual property of third parties, and other factors, including those factors discussed in detail in Item 1A, "Risk Factors," in Barnes & Noble's Annual Report on Form 10-K for the fiscal year ended April 30, 2016, and in Barnes & Noble's other filings made hereafter from time to time with the SEC.

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Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described as anticipated, believed, estimated, expected, intended or planned. Subsequent written and oral forward-looking statements attributable to Barnes & Noble or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements in this paragraph. Barnes & Noble undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this Form 10-Q.

**Item 3: Quantitative and Qualitative Disclosures About Market Risk**

The Company limits its interest rate risks by investing certain of its excess cash balances in short-term, highly-liquid instruments with an original maturity of one year or less. The Company does not expect any material losses from its invested cash balances and the Company believes that its interest rate exposure is modest. As of January 28, 2017, the Company's cash and cash equivalents totaled approximately \$11.6 million. A 50 basis point increase in annual interest rates would have increased the Company's interest income by \$0.0 million in the third quarter of fiscal 2017. Conversely, a 50 basis point decrease in annual interest rates would have reduced interest income by \$0.0 million in the third quarter of fiscal 2017.

Additionally, the Company may from time to time borrow money under its credit facility at various interest rate options based on the Base Rate or LIBO Rate (each term as defined in the amended and restated credit agreement described in the Quarterly Report under the section titled "Notes to Consolidated Financial Statements") depending upon certain financial tests. Accordingly, the Company may be exposed to interest rate risk on borrowings under its credit facility. The Company had \$18.2 million in borrowings under its New Credit Facility at January 28, 2017 and no borrowings at January 30, 2016. A 50 basis point increase in annual interest rates would have increased the Company's interest expense by \$0.2 million in the third quarter of fiscal 2017. Conversely, a 50 basis point decrease in annual interest rates would have reduced interest expense by \$0.2 million in the third quarter of fiscal 2017.

The Company does not have any material foreign currency exposure as nearly all of its business is transacted in United States currency.

**Item 4: Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

The management of the Company established and maintains disclosure controls and procedures that are designed to ensure that material information relating to the Company and its subsidiaries required to be disclosed in the reports that are filed or submitted under the Exchange Act are recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. As of the end of the period covered by this report, the Company's management conducted an evaluation (as required under Rules 13a-15(b) and 15d-15(b) under the Exchange Act), under the supervision and with the participation of the principal executive officer and principal financial officer, of the Company's "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

Based on management's evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective at the reasonable assurance level.

## PART II - OTHER INFORMATION

### **Item 1. Legal Proceedings**

The Company is involved in a variety of claims, suits, investigations and proceedings that arise from time to time in the ordinary course of its business, including actions with respect to contracts, intellectual property, taxation, employment, benefits, securities, personal injuries and other matters. The results of these proceedings in the ordinary course of business are not expected to have a material adverse effect on the Company's consolidated financial position or results of operations.

The Company records a liability when it believes that it is both probable that a liability will be incurred, and the amount of loss can be reasonably estimated. The Company evaluates, at least quarterly, developments in its legal matters that could affect the amount of liability that has been previously accrued and makes adjustments as appropriate. Significant judgment is required to determine both probability and the estimated amount of a loss or potential loss. The Company may be unable to reasonably estimate the reasonably possible loss or range of loss for a particular legal contingency for various reasons, including, among others: (i) if the damages sought are indeterminate; (ii) if proceedings are in the early stages; (iii) if there is uncertainty as to the outcome of pending proceedings (including motions and appeals); (iv) if there is uncertainty as to the likelihood of settlement and the outcome of any negotiations with respect thereto; (v) if there are significant factual issues to be determined or resolved; (vi) if the proceedings involve a large number of parties; (vii) if relevant law is unsettled or novel or untested legal theories are presented; or (viii) if the proceedings are taking place in jurisdictions where the laws are complex or unclear. In such instances, there is considerable uncertainty regarding the ultimate resolution of such matters, including a possible eventual loss, if any.

Legal matters are inherently unpredictable and subject to significant uncertainties, some of which are beyond the Company's control. As such, there can be no assurance that the final outcome of these matters will not materially and adversely affect the Company's business, financial condition, results of operations, or cash flows.

Except as otherwise described below with respect to the Adrea LLC (Adrea) matter, the Company has determined that a loss is reasonably possible with respect to the matters described below. Based on its current knowledge, the Company has determined that the amount of loss or range of loss that is reasonably possible (or, in the case of Adrea, probable), including any reasonably possible (or, in the case of Adrea, probable) losses in excess of amounts already accrued, is not estimable.

The following is a discussion of the material legal matters involving the Company.

#### ***PIN Pad Litigation***

As previously disclosed, the Company discovered that PIN pads in certain of its stores had been tampered with to allow criminal access to card data and PIN numbers on credit and debit cards swiped through the terminals. Following public disclosure of this matter on October 24, 2012, the Company was served with four putative class action complaints (three in federal district court in the Northern District of Illinois and one in the Northern District of California), each of which alleged on behalf of national and other classes of customers who swiped credit and debit cards in Barnes & Noble Retail stores common law claims such as negligence, breach of contract and invasion of privacy, as well as statutory claims such as violations of the Fair Credit Reporting Act, state data breach notification statutes, and state unfair and deceptive practices statutes. The actions sought various forms of relief including damages, injunctive or equitable relief, multiple or punitive damages, attorneys' fees, costs, and interest. All four cases were transferred and/or assigned to a single judge in the United States District Court for the Northern District of Illinois, and a single consolidated amended complaint was filed. The Company filed a motion to dismiss the consolidated amended complaint in its entirety, and in September 2013, the Court granted the motion to dismiss without prejudice. The Plaintiffs then filed an amended complaint, and the Company filed a second motion to dismiss. On October 3, 2016, the Court granted the second motion to dismiss, and dismissed the case without prejudice; in doing so, the Court permitted plaintiffs to file a second amended complaint by October 31, 2016. On October 31, 2016, the plaintiffs filed a second amended complaint. The Company filed a motion to dismiss the second amended complaint, and that motion has been fully briefed and is awaiting decision. A status hearing is scheduled for March 14, 2017.

#### ***Cassandra Carag individually and on behalf of others similarly situated v. Barnes & Noble, Inc., Barnes & Noble Booksellers, Inc. and DOES 1 through 100 inclusive***

On November 27, 2013, former Associate Store Manager Cassandra Carag (Carag) brought suit in Sacramento County Superior Court, asserting claims on behalf of herself and all other hourly (non-exempt) Barnes & Noble employees in California in the preceding four years for unpaid regular and overtime wages based on alleged off-the-clock work, penalties and pay based on missed meal and rest breaks, and for improper wage statements, payroll records, and untimely pay at separation as a result

of the alleged pay errors during employment. Via the complaint, Carag seeks to recover unpaid wages and statutory penalties for all hourly Barnes & Noble employees within California from November 27, 2009 to present. On February 13, 2014, the Company filed an Answer in the state court and concurrently requested removal of the action to federal court. On May 30, 2014, the federal court granted Plaintiff's motion to remand the case to state court and denied Plaintiff's motion to strike portions of the Answer to the Complaint (referring the latter motion to the lower court for future consideration). The Court has not yet scheduled any further hearings or deadlines.

***Adrea LLC v. Barnes & Noble, Inc., barnesandnoble.com llc and NOOK Media LLC***

With respect to the Adrea matter described herein, the Company has determined, based on its current knowledge, that a loss is probable.

On June 14, 2013, Adrea filed a complaint against Barnes & Noble, Inc., NOOK Digital, LLC (formerly barnesandnoble.com llc) and B&N Education, LLC (formerly NOOK Media LLC) (collectively, B&N) in the United States District Court for the Southern District of New York alleging that various B&N NOOK products and related online services infringe U.S. Patent Nos. 7,298,851 ('851 patent), 7,299,501 ('501 patent) and 7,620,703 ('703 patent). B&N filed its Answer on August 9, 2013, denying infringement and asserting several affirmative defenses. At the same time, B&N filed counterclaims seeking declaratory judgments of non-infringement and invalidity with respect to each of the patents-in-suit. On July 1, 2014, the Court issued a decision granting partial summary judgment in B&N's favor, and in particular granting B&N's motion to dismiss one of Adrea's infringement claims, and granting B&N's motion to limit any damages award with respect to another of Adrea's infringement claims.

Beginning October 7, 2014, through and including October 22, 2014, the case was tried to a jury in the Southern District of New York. The jury returned its verdict on October 27, 2014. The jury found no infringement with respect to the '851 patent, and infringement with respect to the '501 and '703 patents. It awarded damages in the amount of \$1.3 million. The jury further found no willful infringement with respect to any patent.

On July 24, 2015, the Court granted B&N's post-trial application to invalidate one of the two patents (the '501 patent) the jury found to have been infringed. On September 28, 2015, the Court heard post-trial motions on the jury's infringement and validity determinations, and on February 24, 2016, it issued a decision upholding the jury's determination of infringement and validity with respect to the '703 patent. Since the original damages award was a total award for infringement of both patents, the Court held a new trial to determine damages for infringement of the '703 patent, which trial concluded on July 15, 2016.

On December 28, 2016, the Court issued its decision on the issue of damages, finding that (a) Adrea should be entitled to a damages award of \$0.3 million, based on a reasonable royalty rate of 5.1 cents per unit, and (ii) Adrea was not entitled to any enhancement of damages, as B&N's infringement was not willful. Following letter briefing, in which Adrea asked the Court to award prejudgment interest of approximately \$0.1 million, the Court, following B&N's reasoning, added \$0.0 million in prejudgment interest to its damages award, and on January 12, 2017 entered judgment in favor of Adrea the total amount of \$0.3 million. Adrea subsequently moved the Court for supplemental damages relating to any allegedly infringing products B&N may have sold that were not taken into account in the first verdict. In addition, Adrea asked the Clerk of the Court to tax costs against B&N in the amount of \$0.1 million. B&N is opposing both requests, and the briefing on those applications is ongoing. In the meantime, the time to appeal the Court's judgment is tolled, pending the determination of Adrea's motion for supplemental damages.

***Café Manager Class Actions***

Two former Café Managers have filed separate actions alleging similar claims of entitlement to unpaid compensation for overtime. In each action, the plaintiff seeks to represent a class of allegedly similarly situated employees who performed the same position (Café Manager). Specifically, Christine Hartpence filed a complaint against Barnes & Noble, Inc. (Barnes & Noble) in Philadelphia County Court of Common Pleas on May 26, 2015 (Case No.: 160503426), alleging that she is entitled to unpaid compensation for overtime under Pennsylvania law and seeking to represent a class of allegedly similarly situated employees who performed the same position (Café Manager). On July 14, 2016, Ms. Hartpence amended her complaint to assert a purported collective action for alleged unpaid overtime compensation under the federal Fair Labor Standards Act (FLSA), by which she sought to act as a class representative for similarly situated Café Managers throughout the United States. On July 27, 2016, Barnes & Noble removed the case to the U.S. District Court of the Eastern District of Pennsylvania (Case No.: 16-4034). Ms. Hartpence then voluntarily dismissed her complaint and subsequently re-filed a similar complaint in the Philadelphia County Court of Common Pleas (Case No.: 161003213), where it is currently pending. The re-filed complaint alleges only claims of unpaid overtime under Pennsylvania law and alleges class claims under Pennsylvania law that are limited to current and former Café Managers within Pennsylvania.

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On September 20, 2016, Kelly Brown filed a complaint against Barnes & Noble in the U.S. District Court for the Southern District of New York (Case No.: 16-7333) in which she also alleges that she is entitled to unpaid compensation under the FLSA and Illinois law. Ms. Brown seeks to represent a national class of all similarly situated Café Managers under the FLSA, as well as an Illinois-based class under Illinois law. On November 9, 2016, Ms. Brown filed an amended complaint to add an additional plaintiff named Tiffany Stewart, who is a former Café Manager who also alleges unpaid overtime compensation in violation of New York law and seeks to represent a class of similarly situated New York-based Café Managers under New York law. Since the commencement of the action, six former Café Managers have filed consent forms to join the action as plaintiffs.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2016.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Issuer Purchases of Equity Securities**

The following table provides information with respect to purchases by the Company of shares of its common stock:

<b>Period</b>	<b>Total Number of Shares Purchased (a)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs</b>
October 30, 2016 – November 26, 2016	273,420	\$ 11.03	273,420	\$ 476,968
November 27, 2016 – December 31, 2016	73,530	\$ 12.37	37,600	\$ 666
January 1, 2017 – January 28, 2017	4,739	\$ 11.40	—	\$ 666
Total	<u>351,689</u>	<u>\$ 11.32</u>	<u>311,020</u>	

- (a) The shares on this table above include 311,020 shares repurchased under the Company's stock repurchase program, as well as 40,669 shares relinquished by employees in exchange for the Company's agreement to pay federal and state withholding obligations resulting from the vesting of the Company's restricted stock units, which are not drawn against the Company's stock repurchase program. All of the restricted stock units vested during these periods were originally granted pursuant to the Company's 2009 Amended and Restated Incentive Plan. This Incentive Plan provides for the withholding of shares to satisfy tax obligations due upon the vesting of restricted stock units.

On October 20, 2015, the Company's Board of Directors authorized a new stock repurchase program for the purchase of up to \$50.0 million of its common shares. Stock repurchases under this program may be made through open market and privately negotiated transactions from time to time and in such amounts as management deems appropriate. The repurchase program has no expiration date and may be suspended or discontinued at any time. The Company's repurchase plan is intended to comply with the requirements of Rule 10b5-1 and Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The Company has remaining capacity of \$0.0 million under this program as of January 28, 2017. As of January 28, 2017, the Company has repurchased 40,092,951 shares at a cost of approximately \$1.09 billion since the inception of the Company's stock repurchase programs. The repurchased shares are held in treasury.

**Item 6. Exhibits**

***Exhibits filed with this Form 10-Q:***

31.1	Certification by the Executive Chairman and Chief Executive Officer (principal executive officer) pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Executive Chairman and Chief Executive Officer (principal executive officer) pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BARNES & NOBLE, INC.

(Registrant)

By: /s/ ALLEN W. LINDSTROM

Allen W. Lindstrom  
*Chief Financial Officer*  
*(principal financial officer)*

By: /s/ PETER M. HERPICH

Peter M. Herpich  
*Vice President and Corporate Controller*  
*(principal accounting officer)*

March 2, 2017

**EXHIBIT INDEX**

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101.PRE	XBRL Taxonomy Presentation Linkbase Document

**CERTIFICATION BY THE  
EXECUTIVE CHAIRMAN AND CHIEF EXECUTIVE OFFICER (PRINCIPAL EXECUTIVE OFFICER) PURSUANT TO  
17 CFR 240.13a-14(a)/15(d)-14(a),  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Leonard Riggio, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended January 28, 2017 of Barnes & Noble, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2017

By: /s/ Leonard Riggio

Leonard Riggio

*Executive Chairman and Chief Executive Officer*

*(principal executive officer)*

*Barnes & Noble, Inc.*

**CERTIFICATION BY THE  
CHIEF FINANCIAL OFFICER PURSUANT TO  
17 CFR 240.13a-14(a)/15(d)-14(a),  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Allen W. Lindstrom, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended January 28, 2017 of Barnes & Noble, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2017

By: /s/ Allen W. Lindstrom  
Allen W. Lindstrom  
Chief Financial Officer  
Barnes & Noble, Inc.

CERTIFICATION OF THE EXECUTIVE CHAIRMAN AND CHIEF EXECUTIVE OFFICER (PRINCIPAL EXECUTIVE OFFICER) PURSUANT TO  
RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934  
AND 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Barnes & Noble, Inc. (the "Company") on Form 10-Q for the period ended January 28, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Leonard Riggio, Executive Chairman and Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Leonard Riggio

Leonard Riggio

*Executive Chairman and Chief Executive Officer*

*(principal executive officer)*

*Barnes & Noble, Inc.*

March 2, 2017

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934  
AND 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Barnes & Noble, Inc. (the "Company") on Form 10-Q for the period ended January 28, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Allen W. Lindstrom, Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Allen W. Lindstrom

Allen W. Lindstrom

*Chief Financial Officer*

*Barnes & Noble, Inc.*

March 2, 2017

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.